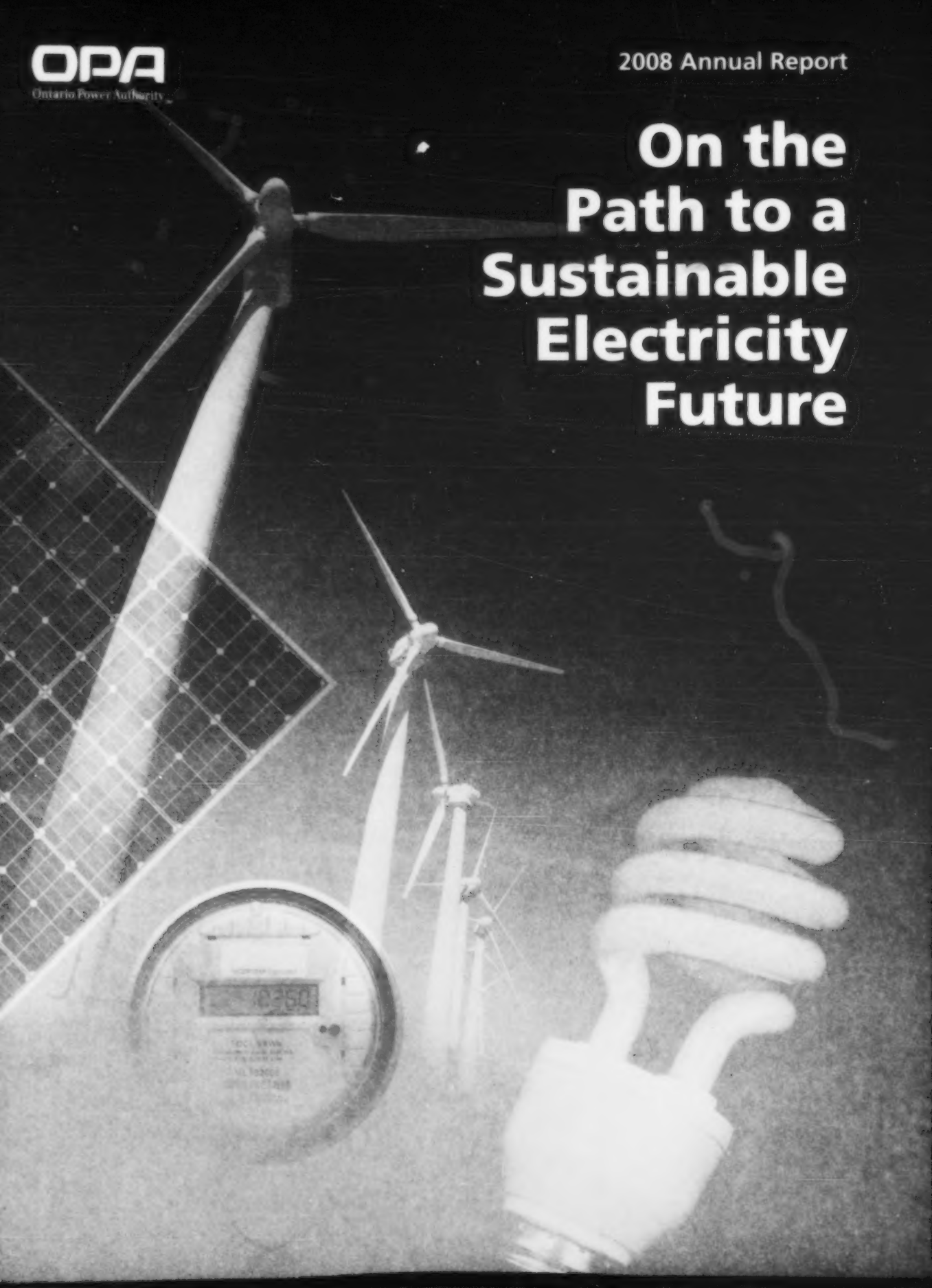


On the Path to a Sustainable Electricity Future





Ontario Power Authority

March 31, 2009

The Honourable George Smitherman
Minister of Energy and Infrastructure
900 Bay Street, 4th Floor
Toronto, ON M7A 2E1

Dear Minister:

I am pleased to submit the Ontario Power Authority's 2008 annual report. The report provides an overview of the OPA's activities and accomplishments during the fiscal year ended December 31, 2008, and includes the audited financial statements.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "John M. Beck".

John M. Beck
Chair

The Ontario Power Authority (OPA) is responsible for ensuring a reliable, sustainable supply of electricity for Ontario. It has four key areas of focus: leading and coordinating conservation efforts across the province, planning the power system for the long term, ensuring development of needed generation resources and supporting the continued evolution of the electricity sector.

The OPA was established by the *Electricity Restructuring Act, 2004* (amending the *Electricity Act, 1998*). It is governed by an independent Board of Directors and reports to the Ontario Legislative Assembly through the Minister of Energy and Infrastructure. The OPA is licensed and regulated by the Ontario Energy Board.

2008 Highlights

- In June 2008, Ontario's Chief Energy Conservation Officer reported that Ontario had met its first conservation target of a 1,350-megawatt peak demand reduction by the end of 2007.
- The OPA's 2008 portfolio of electricity conservation programs was broadened to provide incentives to all market sectors, including residential, business and industrial customers – virtually every sector of Ontario's economy.
- A formal process of evaluation, measurement and verification of conservation program results was finalized and is being undertaken for all programs in the marketplace in 2008.
- In response to the Chief Energy Conservation Officer's call in 2007 for the appointment of municipal energy conservation officers, 17 communities representing 50 percent of Ontarians have done so.
- As of December 31, 2008, the OPA had a total of 11,559 megawatts under contract, including 2,644 megawatts of renewable energy projects and 5,915 megawatts of clean energy supply.
- Implementation of solutions for areas with local electricity reliability constraints proceeded in the northern York Region and the southwestern Greater Toronto Area. Solutions are under development for Windsor-Essex and Kitchener-Waterloo-Cambridge-Guelph. These solutions integrate conservation measures with the development of new supply and transmission enhancements.
- The OPA commenced a process of enhanced consultation with First Nations and Métis communities on the Integrated Power System Plan in November and is considering Aboriginal partnership opportunities in the generation and transmission of electricity.
- The OPA contributed to activities to develop Ontario's electricity sector. These included participating in proceedings to remove barriers to transmission, conservation, distributed generation and renewable energy supply, as well as supporting expanded trading of electricity forward contracts on the IntercontinentalExchange.⁽⁸⁾
- The OPA participated in Ontario's Smart Grid Forum to develop a vision for a provincial smart grid. The forum's report, released in February 2009, calls for a coordinated effort to increase reliability, develop economic opportunities and promote environmental sustainability through the grid.

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For more information about the OPA's activities and programs, please visit the following OPA websites:
www.powerauthority.on.ca
www.everykilowattcounts.ca

Message from the Chair and the CEO

A Year of Change and Further Progress

2008 was a year of change for the electricity industry in Ontario and the OPA – and indeed the world. A new, amalgamated ministry was created in June – that of Energy and Infrastructure – and a new minister, the Honourable George Smitherman, was appointed. In September, the OPA's Board of Directors appointed a new chief executive officer.

2008 also marked a number of significant accomplishments for the OPA. In June 2008, Ontario's Chief Energy Conservation Officer reported that the province had met the first 1,350-megawatt peak demand reduction target by the end of 2007. Work on meeting the next interim target of a further 1,350-megawatt reduction by the end of 2010 is now well under way. These interim targets are paving the way toward Ontario's long-term target of a 6,300-megawatt reduction by 2025. These are some of the most aggressive conservation targets in North America, if not the world, and the OPA is seeking to accelerate them.

The OPA's 2008 portfolio of electricity conservation programs was broadened to provide incentives to all market sectors, including residential, business and industrial customers. These programs are designed to increase conservation awareness and energy efficiency – and to realize significant electricity savings and build industry capacity in virtually every sector of Ontario's economy. The OPA partnered with more than 70 local distribution companies, which collectively represent more than 99 percent of electricity customers, to deliver these programs.

In 2008, the OPA managed and settled an increased volume and value of contracts for conservation and generation resources. A total of 11,559 megawatts of new electricity supply was under contract as of December 31, 2008. These included 40 large-scale contracts for



Colin Andersen
Chief Executive Officer

John M. Beck
Chair

10,147 megawatts of new electricity supply – such as projects for renewable energy resources, natural gas-fired generating facilities and combined heat and power projects – representing a \$12.8 billion investment in Ontario's electricity system.

Another 424 contracts for small-scale distributed renewable energy projects under the Renewable Energy Standard Offer Program have the potential to contribute more than 1,412 megawatts of electricity from wind, hydro, solar and biomass sources to Ontario's supply.

Solutions for areas with electricity reliability challenges proceeded in the northern York Region and the southwestern Greater Toronto Area. Development of solutions is underway in Windsor-Essex and Kitchener-Waterloo-Cambridge-Guelph. These solutions integrate conservation measures with generation and transmission to address supply constraints and meet increased demand.

A key development in 2008 was the September 17 directive from the Minister of Energy and Infrastructure. The OPA was asked to review the Integrated Power System Plan, or IPSP, which was filed with the Ontario Energy Board (OEB) in August 2007. The review is focused on

opportunities to expedite the targets for conservation, renewable energy and distributed generation, together with the deployment and use of smart meter technologies. The directive resulted in a pause of the OEB hearing on the IPSP in late September.

The OPA was also asked to undertake enhanced consultation on the IPSP with First Nations and Métis communities and to consider Aboriginal partnership opportunities in generation and transmission matters. The OPA began a series of meetings with Aboriginal representatives in November 2008 and is continuing to develop partnerships and capacity-building agreements to enable Ontario's Aboriginal Peoples to participate effectively.

Many of these accomplishments and developments took place against a backdrop of dramatic global changes. In October 2008, the world entered into a period of what is widely expected to be prolonged economic instability. Looking ahead in 2009, the focus, priorities and resources of governments around the world are shifting as quickly as they can to adapt to the changed circumstances.

But with great challenges also come great opportunities. The challenges in Ontario are three-fold: the need to revitalize our electricity infrastructure, the requirement to stimulate our economy and the desire to improve the electricity sector's environmental performance. By transforming this sector through increased roles for conservation, renewable energy and distributed generation, Ontarians can also embrace the social, environmental and economic benefits of green energy and, in so doing, forge an important link to the creation of green jobs.

New measures contemplated by the proposed Green Energy and Green Economy Act (Green Energy Act), tabled in February 2009, are intended not only to contribute to a stronger provincial economy – they also create the potential for Ontario to become a world-leading energy jurisdiction. The OPA looks forward to being an important part of this transformation.



In September 2008, the Independent Electricity System Operator (IESO) released one of its most positive 18-month outlook reports on the reliability of Ontario's electricity system since the electricity market opened in 2002. The report covers the period from October 2008 to March 2010.

The subsequent reliability outlook report issued by the IESO in late December for January 2009 to June 2010 remained positive. Plans for phasing out coal-fired generation are on track with new and cleaner forms of generation coming online, including new natural gas and wind generation capacity. Three priority areas identified for the electricity system were the changing nature of Ontario's supply mix, the operational requirements of a greener electricity system and the continuing need for transmission enhancement. Over the next 18 months, about 4,000 megawatts of new and refurbished generation are expected to come into service. Much of the new supply is either under construction or well into the commissioning phase.

The OPA will continue to focus on all areas of its mandate in 2009 – planning, conservation, procurement and sector development – to ensure a reliable electricity supply. In 2008, for the first time, the OPA developed a three-year business plan for the period from January 1, 2009 to December 31, 2011. This change reflects the organization's growth and maturity, as well as the experience of its staff with the challenges facing the province's electricity industry and the success of its initiatives since the OPA began operations in January 2005.

During this extended business-planning period, the OPA will continue its efforts to ensure the reliability and sustainability of the province's electricity system for the benefit of Ontario's consumers. This will include developing ways to address barriers to the development of economically sustainable conservation, supply and transmission.

Message from the Chair and the CEO (continued)

A major OPA initiative in 2009 will be capacity building to help create green jobs in Ontario's conservation industry. With the introduction of the proposed Green Energy Act, the OPA will increase its emphasis on deriving Ontario's electricity from renewable, green energy sources and distributed generation. This shift to more local, distributed solutions, as well as greater reliance on energy-efficient technologies to achieve conservation targets, is starting to create new green jobs in emerging and growing industries, providing an added benefit to Ontario's economy. The Ontario government has predicted that 50,000 jobs will be created in three years as a result of this legislation.

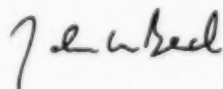
The OPA will also continue to promote a culture of conservation by coordinating and funding conservation activities, helping to overcome barriers to the implementation of electricity conservation measures and working with partners to deliver conservation programs.

In 2009, in addition to its work on the IPSP, the OPA will be seeking ways to accelerate the implementation of cost-effective conservation and renewable resources and undertaking development work on key transmission projects to enable new renewable sources of energy to come into service. And it will continue to lay the groundwork needed to support the implementation of specific projects identified in the IPSP until the plan is approved or specific directives are issued to proceed.

2009 will also see the OPA advancing the development of regional electricity plans, particularly for areas of the province with urgent and emerging electricity reliability issues. This involves coordinating and supporting the implementation of integrated electricity solutions that consider comprehensive conservation, renewable and distributed generation solutions before other resource options.

Technology is playing a vital role in helping consumers understand their use of electricity and manage their costs better. In early February, the Smart Grid Forum, a broad-based industry group, released a report that recommends what needs to happen to advance the development of a smart grid in Ontario. This will make it possible for two-way flows of electricity and information between customers and their electricity suppliers. An active participant in this group, the OPA will work together with its industry partners to create an electricity system to serve the digital age.

In closing, our road from 2009 to 2011 and beyond promises to be both challenging and exciting. Although much progress has been made in securing and sustaining Ontario's supply of electricity, much more remains to be accomplished. The OPA will continue to take the steps needed to keep Ontario on the path to a sustainable electricity future.



John M. Beck, Chair



Colin Andersen, Chief Executive Officer

Meeting Ontario's Conservation Targets

In June 2008, Ontario's Chief Energy Conservation Officer reported that Ontario had met its 2007 interim peak demand reduction target of 1,350 megawatts. The focus is now on meeting the next interim target of a further 1,350 megawatts by the end of 2010.

The overall target is a 6,300-megawatt peak demand reduction by the end of 2025 – equivalent to taking one out of five electricity users off the grid. These targets are among the most aggressive in North America. The OPA is currently considering ways to expedite achievement of these targets.

The OPA's Conservation Activities

The OPA engages in three complementary but distinct types of activities that contribute to meeting Ontario's electricity conservation targets: providing incentives, building capacity and changing behaviour for the long term.

The OPA *provides incentives*, such as rebates for energy-efficient appliances or payments to industrial or commercial customers to reduce their demand during peak periods. These activities are playing the largest role in contributing to meeting the 2010 target. *Building capacity* involves enhancing the knowledge and skills of electricity consumers and conservation partners to engage in conservation and energy efficiency. This includes developing new conservation delivery channels, increasing capacity through training and education of existing delivery channels such

as local distribution companies (LDCs), and increasing the energy-efficiency skills of the providers and consumers of goods and services. *Changing behaviour* so that sound conservation practices and energy-efficient products and services dominate the market is a long-term planning objective of the OPA. Over time, as capacity builds in the market and energy-efficiency codes and standards are improved, a gradual reduction in the need for incentives is anticipated.

Developing and Maintaining a Conservation Portfolio

The OPA takes a "portfolio" approach to conservation programs to ensure that its energy-efficiency initiatives are comprehensive and cost-effective overall. For example, some programs focus on energy efficiency and demand management, while others focus on a particular aspect or aspects of conservation.

The OPA's 2008 portfolio of electricity conservation programs was designed to achieve conservation and energy efficiency and build capacity in virtually every sector of Ontario's economy. There are four programs: residential, business, industrial and enabling. Each program consists of a number of initiatives as set out in Table 1 on page 6.

In addition to initiatives for residential, business and industrial customers, the OPA's enabling program consists of initiatives to support new conservation and energy-efficient products and

2008 in Review (continued)

Table 1: OPA 2008 Conservation Portfolio – Program Initiatives

Residential	Business	Industrial	Enabling
Great Refrigerator Roundup	Electricity Retrofit Incentive	Demand Response 1	Conservation Fund
Summer Sweepstakes*	High Performance New Construction*	Demand Response 3*	Technology Development Fund
peaksaver	Power Savings Blitz*		Conservation Awareness
Every Kilowatt Counts			
Power Savings Event	Multi-family Buildings*		
LDC Custom*	Toronto Comprehensive Program		
Aboriginal Conservation Pilot	Chiller Plant Recommissioning*		
Cool Savings Rebate			
*Launched in 2008			

services, as well as innovative delivery methods, primarily through the Conservation and Technology Development Funds. A wide range of suppliers is active in delivering program initiatives, including the OPA, electricity and natural gas utilities, government and energy management companies.

From 2005 to 2007, the OPA was primarily in the developmental phase of conservation programming – both with respect to program design, development and delivery and its ability to measure and verify performance. In 2008, the OPA continued to implement its portfolio of conservation programs across all sectors. Key areas of focus were program management, including strengthening and increasing the number of delivery channels, and evaluating, verifying and reporting on results. A number of these initiatives achieved notable success in 2008. Several new initiatives, identified in Table 1, were launched to provide a broader range of conservation and energy-efficiency incentives and opportunities to Ontarians.

Local distribution companies continued to play a central role in delivering conservation programs to households and businesses in Ontario in 2008. More than 70 local distribution companies,

representing more than 99 percent of electricity customers, partnered with the OPA to deliver at least one conservation program initiative.

Evaluating Conservation Programs

The OPA continuously enhances its conservation programs with the objective of achieving maximum energy savings and demand reduction. This is accomplished by carrying out rigorous evaluation, measurement and verification (EM&V) and market research. In 2007, the OPA developed an energy program evaluation framework to provide better assessments of electricity savings and demand reduction results from OPA-funded conservation programs, as well as to generate an enhanced quality of data for both forecasting and verifying conservation potential.

This framework was refined in a number of ways in 2008, including through the development of a specific technique for conducting EM&V on demand response initiatives that will be applied in 2009. Over the last three years, the OPA has worked to evaluate, measure and verify the results of its conservation programs in a process intended to produce results with international credibility.

EM&V assessment and results, combined with market research on program impact and lessons from others, inform program design and development. These are all used to adjust OPA programs to make them more effective. In 2008, this data led to the enhancement of several initiatives, including the Great Refrigerator Roundup. The OPA also developed an evaluation plan for every conservation initiative in the market in 2008, and the evaluation process was applied to these to improve their future performance. The results of these evaluations will be published in the third quarter of 2009. In addition, comprehensive evaluations were done for six conservation initiatives in the market in 2007, the results of which are available on the OPA website. Each conservation program initiative in the OPA's 2008 to 2010 conservation portfolio will undergo a full evaluation at least once during the three-year portfolio cycle.

Building a Culture of Conservation in Ontario

Building a culture of conservation requires a disciplined and sustained effort over a number of years. It also requires the participation of a wide range of players – from governments at all levels to electricity and natural gas utilities, from private companies and non-governmental organizations to individuals.

The Conservation Bureau, headed by the Chief Energy Conservation Officer, played a key leadership and coordination role in raising awareness and championing a culture of conservation across Ontario. A large part of the Chief Energy Conservation Officer's efforts involved fostering and recognizing the many leaders in conservation and energy efficiency in Ontario. Since his appointment in 2005, the Chief Energy Conservation Officer has engaged leaders in championing energy efficiency across the province. In 2008, he awarded certificates of recognition to 54 individuals and organizations demonstrating leadership in electricity conservation.



Demonstrating their strength as flexible, year-round energy conservation resources that offer real value, the OPA's demand response initiatives continued to grow in 2008.

Demand Response 3, an initiative that commits industrial and commercial businesses to reduce power demand at peak times, was successfully launched in August 2008, with its first activation on August 6. The initiative was activated many times thereafter and called upon its full contracted volume of megawatts in response to electricity system needs. Both the number of participants and megawatts under contract are expected to increase significantly in 2009.

Participants meet on a monthly basis to provide input and share their experiences. Based on this feedback, the OPA modified the initiative design for 2009 to make it easier for commercial and retail properties to participate.

Demand Response 1, a voluntary demand response initiative, grew by about 122 megawatts in 2008 and added 10 new customers. A number of participants in this initiative are expected to transfer to Demand Response 3 in 2009, while new participants are expected to register for Demand Response 1.

Demand Response 2, an incentive initiative for large industrial and manufacturing businesses, was launched in mid-January 2009. Participants agree to shift their power demand from peak times to off-peak periods.

There were more than 41,500 participants in *peaksaver*, a residential and small business electricity demand reduction initiative that temporarily turns down central air conditioning systems during periods of high demand. This initiative had five province-wide activations during the summer of 2008.



OPA conservation initiative recycles old appliances and creates new jobs

In November, the 100,000th fridge was picked up for decommissioning under the Great Refrigerator Roundup. The initiative was offered to residential customers by the OPA in partnership with more than 70 local distribution companies. Appliances were collected by ARCA Canada and decommissioned in an environmentally responsible way at its Oakville facility. Approximately 100 green jobs in Ontario were created as electricity-guzzling old appliances were permanently removed from the grid.

Leadership applies equally to businesses and industry, as well as to governments at all levels. Strong local community champions will be pivotal in fostering leadership and developing coordinated efforts to meet Ontario's conservation targets and increase its energy efficiency. In response to the Chief Energy Conservation Officer's call in 2007 for the appointment of municipal energy conservation officers, 17 communities representing 50 per cent of Ontarians had done so by the end of 2008. In his 2008 annual report, issued in November, the Chief Energy Conservation Officer extended this effort by issuing a call for businesses and institutions to designate energy conservation officers to act as internal energy "champions."

There are several unique challenges to raising awareness and engaging Ontarians in conservation activities: the "invisible" nature of electricity, the need for everyone to participate and the difficulty in measuring it.

2008 in Review (continued)



One significant OPA effort in 2008 to make conservation more visible and engage as many as possible, in advance of the summer peak demand,

was the launch of Ontario's first

province-wide Energy Conservation Week from May 25 to 31. Coordinated by the OPA and in partnership with the Ministry of Energy, the Independent Electricity System Operator and the Electricity Distributors Association, the week was a concentrated period of focused efforts to encourage wiser electricity use through a grassroots, decentralized campaign. The second annual Energy Conservation Week will be held from May 17 to 23, 2009. For more information, visit www.energyconservationweek.ca.

Recognizing both the importance of and the difficulties in measuring conservation, one of the Chief Energy Conservation Officer's nine recommendations in his 2008 annual report related to the development and implementation of an energy conservation measurement and verification plan for those engaged in conservation, including the provincial and federal governments. Other recommendations related to minimum energy-efficiency standards for buildings and energy-consuming products, improving the energy efficiency of new and renovated buildings, and sub-metering in multi-unit residential and commercial buildings.

Conservation Awareness Messaging

The OPA uses consistent messaging and branding to support all conservation programs as well as

the development of a conservation culture throughout Ontario. As part of this effort, the OPA developed a cohesive, overarching

brand, "Every Kilowatt Counts," which connects the conservation awareness programs the OPA funds and is used by its delivery partners.



In 2008, the OPA re-launched its Every Kilowatt Counts website, www.everykilowattcounts.ca, to provide broader and more in-depth conservation information for Ontarians. The site includes a special interactive, educational section for children called Kids' Corner, as well as resources educators can download to supplement their energy conservation curricula. It also offers comprehensive information and case studies for all business sectors, including commercial, institutional, industrial and agricultural.

The OPA carried out two ministerial directives in 2008 to procure energy conservation advertisements – both were in support of the ministry's major consumer awareness campaigns on conservation for the residential sector.



OPA receives ENERGY STAR® Advocate of the Year Award

In June 2008, the OPA received the "ENERGY STAR Advocate of the Year Award" from Natural Resources Canada for the Every Kilowatt Counts and Cool Savings initiatives undertaken in 2007. This annual award is one of nine ENERGY STAR Market Transformation awards to recognize excellence in the marketing and promotion of more energy-efficient ENERGY STAR equipment. The OPA's Paul Shervill (left) received the award from Member of Parliament David Anderson.

Understanding Conservation Behaviour and Awareness

The OPA's marketing research in 2008 had three main purposes: to inform its strategy to design and deliver residential and business programs, to monitor feedback on its residential initiatives and to inform the development of Every Kilowatt Counts as the umbrella brand for its conservation programs.

This research included province-wide surveys to measure public opinion (described in the sidebar on page 10) and surveys to obtain feedback on residential initiatives in the marketplace. It also included focus groups across local distribution company territories to explore ways to increase participation in the *peaksaver* demand response initiative, interviews and focus groups with business leaders to inform future conservation programming for business markets, and focus groups on positioning and messaging for the Every Kilowatt Counts brand.

In January 2009, the OPA received the Association of Energy Services Professionals' award for Outstanding Achievement in Market Research and Evaluation. The annual awards program of this US-based organization recognizes excellence in the energy services field, in areas such as energy program design or implementation, marketing communications and market research.

Developing and Supporting Ontario's Conservation Service Industry

Many of the OPA's efforts in 2008 addressed the development of skills and knowledge of the conservation service industry and other market players, as well as the need to better educate electricity customers about how to conserve.

To help the market become more efficient and effective at delivering conservation and to support the growing conservation service industry in Ontario, the OPA's efforts focused on conservation program delivery agents, including local



2008 in Review (continued)

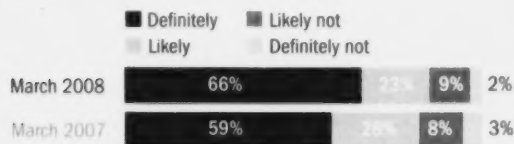
2008 market research results indicate that Ontarians feel increasingly empowered about conserving electricity. Individuals are learning more about what they can do to use electricity more efficiently, and most of

those surveyed report having taken some action to conserve electricity in the home.

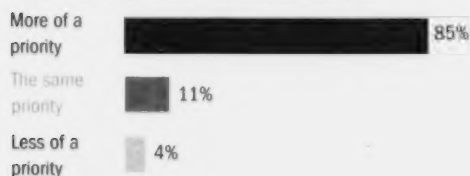
Roughly two-thirds of survey participants, slightly more than in 2007, believe they can definitely make a contribution to reducing total electricity use in the province. And an overwhelming 85 percent reported that using electricity wisely in the home has become more of a personal priority than it was in 2007. Since 2007, progressively more Ontarians cite cost savings and reducing environmental impacts as the main drivers for their electricity conservation behaviours.

Ontarians also appear to be adopting more advanced conservation behaviours over time. Interestingly, as basic conservation actions are taken (such as turning off lights when not in use and buying compact fluorescent lamps) and awareness of more advanced ones increases (such as using appliances more efficiently and buying energy-efficient appliances), people are now more likely than in 2007 to say that they are doing less than "all they can do." These findings, available on the OPA website, indicate that there are opportunities to do more to increase conservation measures in the province.

Individuals can make an important contribution to reducing the overall use of electricity in the province.



Using electricity wisely in your home has become more or less of a priority for you personally over the past year.



Source: OPA Electricity Conservation Usage & Attitude Market Research Q3 2008, August 2008

distribution companies, the supply chain and other influencers, and customers. Related OPA activities included training, certification, development and dissemination of educational materials and tools, and the direct engagement of suppliers.

A number of the OPA's conservation initiatives were specifically intended to develop and support the ability of the conservation industry to deliver and participate in conservation. One such initiative was an energy-efficiency technology symposium hosted by the OPA in November for parties contracted to manage the delivery of OPA-funded conservation programs. Its objectives were to share and increase knowledge of energy-efficiency technologies, including design and retrofit options, and leading practices. Approximately 120 conservation industry participants attended the well-received event.

An important benefit of developing a conservation industry is the creation of new green jobs in Ontario, such as those created by the Great Refrigerator Roundup. Another example is the creation of new jobs to support the function of evaluating, measuring and verifying conservation results. In this regard, the OPA is encouraging the use of Certified Measurement and Verification Professionals for larger-scale efficiency projects. It also plans to sponsor training and examination sessions for people working in this field in 2009. The OPA expects that the Ontario conservation services industry will become more attractive for investment as program activity grows, and that employment opportunities will increase as a result.

Working with Conservation Partners

There are numerous channels through which conservation programs and information can be delivered to customers. Indeed, many distribution channels, close to customers, are needed to support the establishment of a sustainable conservation marketplace. The OPA continued in 2008

to work in partnership with local distribution companies and an increasing number of conservation vendors to ensure Ontario's conservation targets are met. Local distribution companies remained a key channel in promoting electricity conservation in Ontario, playing a central role by delivering conservation programs, identifying opportunities for reduced electricity use and raising awareness.

The OPA also continued to focus on developing and strengthening its relationships with other delivery agents for its conservation programs, including retailers, industry associations and consultants such as the Building Owners and Managers Association; the Heating, Refrigeration and Air Conditioning Institute; and GreenSaver, a non-profit organization dedicated to energy efficiency.



Ontario receives an "A" for energy conservation

In August, the
Canadian Energy
Efficiency
Alliance, which

grades the provincial and federal governments on energy conservation action, gave Ontario an "A" rating on its latest report card. This is up considerably from the D+ rating Ontario received in 2001. In its report, the alliance stated that over the last four years, Ontario had made the greatest improvement in conservation of all the provinces. The "A" rating is a tribute to Ontario's electricity consumers, as well as the provincial government, municipalities, public institutions, corporations and all OPA conservation program delivery partners, particularly local distribution companies.

Supporting New Conservation Initiatives

The OPA's Conservation Fund provides support for action-oriented, sector-specific electricity conservation pilot projects. The fund supports projects using under-exploited program approaches, by working in under-developed market segments, or by soliciting and developing targeted training initiatives to build capacity. Lessons are broadly shared with the involved market segment, external program managers and OPA staff to help inform the development of programs.

To build capacity among funding recipients further, an annual "community of practice" event is held in November each year that brings together leaders in conservation to share their insights and discuss best practices. This session was expanded in 2008 to include a larger group of participants and to cover a broader spectrum of activities. Close to 100 individuals from a wide range of sectors participated in the event. In 2008, the fund also launched a series of webinars for fund recipients to facilitate more frequent information sharing.

The Conservation Fund budget for 2008 was \$3 million. Since 2005, the fund has provided \$8.6 million in funding for 68 electricity conservation pilot projects in the residential, business and industrial sectors of Ontario's economy. These funds have leveraged an additional \$15 million from other sources. In 2008, the fund issued topic-specific calls for expressions of interest for the first time, most of which focused on building capacity for energy managers, building operators and energy-efficiency co-operative placement opportunities for high school students. This approach will be used again in 2009 to solicit proposals that directly address identified needs.

In 2008, 15 new projects were approved across many sectors, including low-income housing, the broader public sector and commercial buildings,

2008 in Review (continued)

as well as an upstream pilot project on consumer electronics. Further information on projects funded to date and selected case studies can be found at www.powerauthority.on.ca/cfund.

Enabling New Technology Development

The Technology Development Fund supports projects that promote the development and commercialization of technologies or applications that have the potential to improve electricity supply or conservation. In 2008, the OPA undertook to review a series of new and emerging technologies and practices that could be brought more quickly into the Ontario marketplace through prioritized investment by the Technology Development Fund, or by incorporating them into current conservation programming.

This enabled the fund to identify three priority conservation technologies it will focus on as part of its 2009 to 2010 investment strategy: high-efficiency lighting, next-generation refrigeration and cooling, and advanced integrated building controls. Several leading Canadian and US utilities involved in emerging technologies have endorsed these conservation technology priorities, which will form the basis of collective funding efforts over the next few years.

In 2008, the Technology Development Fund supported 11 projects for a total of \$1.9 million. These projects leveraged \$24.7 million in external contributions. Since it began in 2006, the fund has supported 30 projects for a total of \$3.1 million and leveraged \$35.6 million in external contributions. Further information on projects funded to date and selected case studies can be found at www.powerauthority.on.ca/tdfund.

Achieving Conservation in the Long Term

Transforming the conservation marketplace cannot be achieved by the OPA alone; however, the OPA has an important role to play, both as a planner and as a program implementer, to support, facilitate and accelerate the transformation process.

To achieve sustained conservation results, a long-term plan must be developed to implement programs and activities that will ensure sound conservation practices and energy-efficient products and services dominate the market. In 2008, the OPA began to develop a plan for the residential, business and industrial sectors that included a vision of how much conservation savings could be realized in each sector by 2025 and a plan of



Photo courtesy of NISERDA

A one-megawatt battery storage unit

In mid-June, the OPA co-hosted a workshop on emerging electrical storage technologies with Natural Resources Canada, the Ontario Centres of Excellence and CEATI International Inc.

These technologies and applications were identified as a development priority by the co-hosts because they have the potential to increase penetration of renewable energy technologies as well as enable customer-based energy solutions. The workshop provided an overview of the current state of storage technologies, helped to identify various opportunities available in Ontario and explored current barriers to deployment. The results of this workshop are being used to help develop potential pilot projects to demonstrate the commercial viability of these applications and accelerate their deployment in Ontario.

how that potential could be achieved, including the use of codes and standards. This plan is being used to guide the development of future conservation program portfolios, as well as to inform some short-term activities, such as the Conservation and Technology Development Funds.

Advancing Energy Efficiency Through Codes and Standards

Research indicates that one of the most cost-effective ways to advance energy efficiency is through more stringent codes and standards. While the OPA does not have the authority to change codes and standards, it has an active role to play in planning for changes to them. The IPSP projects that a significant proportion of conservation savings will come from changes to building codes and performance standards for appliances and equipment.

For this reason, the OPA actively supports initiatives to improve energy codes for buildings and standards for electrical appliances and various kinds of equipment. As the responsibility for these changes lies with both the federal and provincial governments, the OPA continued to work closely with them in 2008. The OPA also continued to monitor national and international developments and best practices to inform and improve its work in this area. It worked as well with other key groups, such as the Canadian Appliance Manufacturers Association and individual appliance manufacturers, to identify opportunities for achieving long-term changes in the appliance market.

The OPA participated in a number of national and international market transformation efforts, including the Forum for Leadership in Energy Efficiency chaired by the Office of Energy Efficiency at Natural Resources Canada, which supports federal and provincial minimum energy performance regulation and coordinates market transformation efforts across Canada.



REGEN Energy Inc. in Toronto is using a 2008 Technology Development Fund grant to further develop its "EnviroGrid" plug-and-play load management device.

REGEN's small controllers are intended for commercial customers who see both their electricity consumption and demand charges on their monthly bills. Controllers are attached to loads that are used intermittently, such as compressors, pumps and air conditioners.

REGEN offers an easy-to-install and far more affordable option to reduce demand, compared to existing conventional building automation systems and equipment retrofit projects. More significantly, it does not require any ongoing operational effort by the facility manager. And since the system is modular, REGEN controllers can be added easily as a customer's facility expands. The next generation of the EnviroGrid device will contain demand response capability as well, to enable the devices to react to operating signals from the Independent Electricity System Operator. This phase of development also will prepare the device for large-scale manufacturing production. If early results are any indication, market demand for REGEN's technology will continue to grow.

Procuring Greener, Cleaner Supply for Ontario

In addition to procuring conservation to help address Ontario's electricity challenge and fulfill its mandate to ensure a sustainable, reliable electricity system for Ontario, the OPA procures needed electricity supply from diverse generating sources. By acting as a creditworthy financial counterparty to encourage investment in Ontario's electricity system, the OPA ensures that needed generation is developed.

In 2008, emphasis was placed on procuring renewable and cleaner sources of electricity such as hydroelectric, wind, solar, natural gas-fired and combined heat and power generation.

Much progress has already been made to procure these generation resources for Ontario, and the OPA's procurement activities continued to grow steadily in 2008. As of December 31, 2008, the OPA had 40 large-scale contracts for 10,147 megawatts of new electricity supply under contract, ranging from projects for renewable energy resources to natural gas-fired generating facilities

and combined heat and power projects, and including contracts with Bruce Power to refurbish four of its nuclear units. These 40 contracts represent a \$12.8-billion investment in the Ontario electricity system that began in 2005 and continues to 2013. In addition, 424 contracts for 1,412 megawatts were signed through the Renewable Energy Standard Offer Program (RESOP). In total, there were contracts for 11,559 megawatts under OPA management, including 2,644 megawatts of renewable energy projects and 5,915 megawatts of clean energy supply (see Table 2).

The number of megawatts under management will increase in 2009 by about 3,000 megawatts to more than 14,500 megawatts, and their contractual value will increase by \$6 billion to nearly \$19 billion – increases of 26 and 47 percent respectively. To handle such significant increases, as well as an expected increase in the number of contracts to be managed, the OPA worked to enhance its contract management processes to ensure they are as efficient and effective as possible.

Table 2: New Electricity Supply Capacity Under Contract
From 2005 to December 31, 2008

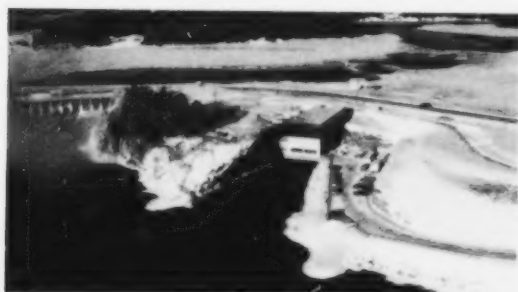
Capacity in service (MW)	Capacity under construction (MW)	Capacity in planning and permitting (MW)	Total capacity under contract (MW)
3,352	4,699	3,508	11,559
Technology or contract type	Number of contracts	Total capacity under contract (MW)	Total capacity in service (MW)
Renewable energy (standard offer ≤10 MW)	424	1,412	97
Renewable energy (large-scale >10 MW)	19	1,232	744
Natural gas	13	5,501	2,480
Combined heat and power	7	414	31
Nuclear	1	3,000	0

Major Procurement Activities

In 2008, the OPA continued to use several different procurement approaches.

A standardized contract structure and pricing continued to be used for procuring small-scale renewable energy projects under RESOP. This program was in effect until May 2008, at which time the OPA initiated a comprehensive program review to ensure the long-term effectiveness in achieving its goals. The proposed Green Energy Act would replace RESOP with a feed-in tariff program.

For hydroelectric generation resources in Northern Ontario, procurement continued to be accomplished through sole-source negotiation. Several facilities were contracted in 2008, including the Lac Seul, Upper Mattagami, Hound Chute



Hydroelectric generation resources in Northern Ontario

The Lac Seul Generating Station (GS), located near Ear Falls, began commercial operations in early 2009. It operates within Ontario Power Generation's Northwest Plant Group.

In late December, Ontario Power Generation and the Lac Seul First Nation formed a partnership that will see the Lac Seul First Nation acquire a 25 percent share of the Lac Seul GS. The station, which will generate enough electricity to meet the annual needs of 5,000 homes, has the Ojibway name of Obishikokaang Waasiganikewigamig, meaning White Pine Narrows electricity generating building. White Pine Narrows is the original Ojibway name of the area.

and Healey Falls generating stations. All were redevelopments, with the exception of the new development at Lac Seul near the existing Ear Falls facility and the expansion of the existing facility at Healey Falls.

All other procurement activities were accomplished through competitive processes.

Competitive Procurements

Procuring Electricity for Areas Facing Supply Issues

Significant progress was made in 2008 in two areas of the province facing critical local supply issues – the northern York Region and the southwestern Greater Toronto Area. Both areas have experienced robust growth in the past few years, growing at a rate of two to three times the provincial average. This has resulted in electricity demand exceeding the capability of the electricity infrastructure serving the areas. Supplemented by ongoing conservation measures, two procurements, for up to 400 megawatts and approximately 850 megawatts respectively, will address the needs of these fast-growing areas for a reliable and secure supply of electricity, as well as contribute to the provincial commitment to shut down coal-fired generation by December 31, 2014.

In January 2008, the OPA received a government directive to procure up to 400 megawatts of peaking natural gas-fired generation in the northern York Region to be in service by December 31, 2011. In response to an OPA procurement process, four proponents submitted six proposals to design, build and operate a new natural gas-fired peaking generating facility in the area. The contract was awarded in December to York Energy Centre LP for a plant to be located in King Township.

In August 2008, the Minister of Energy and Infrastructure issued a directive to the OPA to procure approximately 850 megawatts of combined-cycle natural gas-fired generation in the southwestern Greater Toronto Area. The procurement is to be completed in the summer of

2008 in Review (continued)

2009, and the new generating facility is to be in-service no later than December 31, 2013. The OPA launched the procurement process in October 2008 with a request for qualifications. In mid-January 2009, four companies qualified to compete in the request for proposals process beginning in February 2009. Submissions are expected by July 2009, with a proponent to be chosen by August 2009.

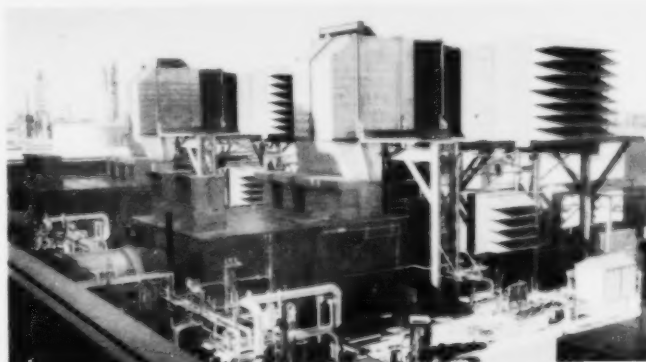
Combined Heat and Power Procurements

A 2005 directive called for the procurement of up to 1,000 megawatts of combined heat and power (CHP) to generate electricity and heat for industrial purposes. The first phase, CHP I, was undertaken in 2006 and resulted in seven contracts totalling 414 megawatts. A second procurement process for combined heat and power (CHP II) was launched in June 2007, starting with a request for expressions of interest. A final request for proposals was released in May 2008 and proposals were received in late January 2009. CHP II is expected to result in contracts for all or some portion of the remaining 586 megawatts in accordance with the directive. In the event that the CHP II procurement results in contracts for less than 586 megawatts, the OPA will assess how best to contract for any remaining capacity related to the original directive.

The OPA received a further directive to procure combined heat and power in April 2008. This directive, referred to as CHP III, called for the procurement of approximately 100 megawatts of high-efficiency renewable-fuelled combined heat and power from projects greater than 10 megawatts. The procurement process began with a request for expressions of interest in June 2008. A stakeholder session was held in August and an updated transmission constraints matrix was released in October. The request for proposals was released in January 2009 and contracts are expected to be executed in June 2009.

Procuring Renewable Energy

In response to a directive in August 2007 to procure 2,000 megawatts of renewable energy supply (RES) for projects that are greater than 10 megawatts, the OPA has been working to procure these megawatts in multiple phases. The procurement process began with a request for expressions of interest in November 2007. In August 2008, the OPA released the final request for proposals and final contract for the first phase, referred to as RES III (the procurements referred to as RES I and RES II were carried out by the Ministry of Energy prior to the formation of the OPA and pre-date the August 2007 directive). The evaluation process concluded at the end of 2008, and the successful projects were announced in late January 2009 (see sidebar on page 17).



Greenfield Energy Centre commences operations

The Greenfield Energy Centre near Sarnia was one of a handful of successful projects commissioned through a 2004 request for proposals by the Ontario government for a total of 2,500 megawatts of new, clean generation and demand-side projects. In 2005, the newly created OPA took over management of the Greenfield Energy Centre contract.

The Greenfield Energy Centre achieved commercial operation on October 16, 2008. This 1,005-megawatt generating station is the largest natural gas-fired generation facility procured by the government or the OPA to date. It is one of the largest combined-cycle facilities in Canada, providing a reliable and readily dispatchable source of electricity for Ontario consumers.



As part of a 2005 ministerial request for proposals to procure up to 1,000 megawatts of renewable energy for projects greater than 10 megawatts (RES II), two large-scale wind projects for a total of 233 megawatts came into service in 2008 – a 132-megawatt project in Amaranth and Melancthon Townships near Shelburne and a 101-megawatt project near Port Alma.

Standard Offer Programs

The first program of its kind in North America, RESOP has been extremely successful since its launch in November 2006, surpassing its 10-year goal of 1,000 megawatts in its first 18 months of operation. As of December 31, 2008, 424 contracts had been executed under this program for a total of 1,412 megawatts, and another 19 applications for contracts were being processed at year-end. RESOP projects include wind power, hydroelectric, solar photovoltaic and biomass.

As a result of the popularity of RESOP, the OPA was proactive in placing the program under review to ensure its continued success. Following its announcement of proposed changes to the program in May, the OPA held a series of technical sessions to gather feedback from stakeholders concerning implementation of the proposed new RESOP rules and the revised contract. The OPA worked closely with the Ministry of Energy and Infrastructure for the remainder of the year to ensure consistency and alignment with the government's policy priorities for renewable energy in Ontario, particularly with respect to the proposed Green Energy Act.

A second standard offer program under development in 2008 was the Northern Hydroelectric Initiative. It was designed to encourage and promote greater use of waterpower from smaller generating projects that connect to the electricity transmission system in Northern

New green energy projects generate more green jobs

In early 2009, the OPA awarded 20-year contracts for six new, large-scale wind power projects that will help create about 2,200 new jobs in Ontario. Three projects are located in Chatham-Kent and one each in Essex, Prince Edward County and Thunder Bay. They will create 492 megawatts of new renewable generation and enough electricity for more than 120,000 homes. In addition to about 1,100 direct and 1,100 indirect jobs, the projects will result in about \$3 million in annual lease payments to hundreds of landowners hosting wind turbines and about \$1 million in annual municipal tax revenues. The six projects are expected to be in service by the end of 2012.

Ontario is Canada's leader in wind power. Wind supply in the province nearly doubled in 2008, with wind generation expected to produce at least two terawatt-hours of electricity in 2009.

Ontario. The OPA received significant input on this initiative from stakeholders, both directly and through industry associations, which has helped guide its consideration of how to ensure the success of the initiative moving forward.

The enormous success of the OPA's small renewable and other clean energy supply procurements is expected to result in a doubling of the amount of cleaner energy under its management in 2009. As with conservation procurement activities, a spin-off benefit is the creation of new jobs to build and operate the new generating facilities under contract with the OPA. Lessons learned from RESOP and the Northern Hydro Initiative consultations will contribute to building a strong framework for renewable energy supply procurement under the feed-in tariff program contemplated by the proposed Green Energy Act.



Bruce-to-Milton transmission line receives OEB approval

In September, the OEB approved Hydro One's application for a "leave to construct" approximately 180 kilometres of a double-circuit 500-kilovolt electricity transmission line. The line will extend from the Bruce Nuclear Generating Station in Kincardine Township to Hydro One's switching station in the Town of Milton. Approval is conditional on a number of factors, including approval of the environmental assessment. The OPA provided evidence in this case addressing various key areas such as the rationale for the transmission line. The line will run adjacent to the existing transmission corridor and is expected to be in service by the end of 2011.

This project, the single largest transmission project in Ontario in 20 years, is needed to meet the increased demand for transmission capacity associated with the development of wind power in the Bruce area and the return to service of nuclear units being refurbished at the Bruce station.

Designing and Managing Procurement Processes

Procurements for conservation and new supply are taking place within an increasingly competitive global market for new investment. Procurement contracts must be designed to provide the best possible value to Ontario electricity ratepayers while ensuring that infrastructure is contracted and built when it is needed. These needs include the necessary timing, volume, location and type of conservation and generating facility, as well as the integration of generation with the transmission system.

Over the next three years, the OPA will continue to use the most appropriate procurement processes, as well as lessons learned, to ensure that new electricity generating resources are in service when and where they are needed, including renewable and natural gas-fired generating facilities.

2008 in Review (continued)

Planning Integrated Solutions

In 2008, the OPA continued its work on long-term electricity system planning and on developing solutions for areas with reliability concerns.

Following oral submissions by intervenors in January, the OEB released its decision on the scope of the IPSP hearing. This important step was followed by the interrogatories phase of the proceeding. In May and June, the OPA responded to more than 3,300 questions from dozens of intervenors. In July and August, intervenors submitted their evidence to the OEB and the OPA was given the opportunity to ask questions based on this information.

The oral hearing before the OEB began on September 8. The hearing was paused in late September as a result of a directive from the Minister of Energy and Infrastructure on September 17. The directive required the OPA to review certain parts of the plan, including the amount and diversity of renewable energy sources in the supply mix, the availability of distributed generation and the viability of accelerating the province's conservation targets. The OPA was also directed to undertake enhanced consultation on the plan with First Nations and Métis communities and to consider Aboriginal partnership opportunities in generation and transmission matters. The new consultation process is described on page 23.

As well as undertaking procurements for the supply-constrained northern York Region and the southwestern Greater Toronto Area in 2008, the OPA continued to develop solutions for key areas identified as facing electricity supply constraints that require attention, such as Windsor-Essex and Kitchener-Waterloo-Cambridge-Guelph.

In addition to planned conservation to reduce demand, the proposed solution in the Windsor-Essex area involves reinforcing the transmission system by building two new lines in the area and a new supply station near Leamington, replacing two aging autotransformers and possibly upgrading one line in Windsor. The expected in-service date is 2012. A large potential for distributed generation also has been identified to help ease supply capacity shortfall and improve the system security in this area. The new facilities will help to connect more distributed generation in the area.



A simple-cycle natural gas plant

Addressing local area supply needs

In December, the OPA awarded a 20-year contract to York Energy Centre LP to design, build and operate a simple-cycle natural gas plant in the Township of King. This plant will address the urgent need for clean, reliable and secure power in one of the fastest-growing areas in Ontario. It will also help the province to close down coal-fired generation by 2014 – Canada's single biggest climate-change initiative.

The 393-megawatt electricity generating station will be located on Dufferin Street in the township. York Energy Centre LP is a limited partnership between York Energy Centre Inc., as general limited partner, and Pristine Power Inc., as limited partner.

The OPA coordinated efforts in the Windsor-Essex area with Hydro One. An extensive stakeholder engagement process took place, involving meetings with mayors, councillors, municipal staff, Members of Provincial Parliament and the public. By mid-2008, information had been gathered on a wide range of issues to determine a preferred solution. Since the fall of 2008, Hydro One has been working to identify a station site and transmission route for the preferred solution. Hydro One, with the OPA's support, also plans to begin the process of obtaining the necessary approvals from the OEB and the Ministry of the Environment in 2009.

Alternative solutions under development for Kitchener-Waterloo-Cambridge-Guelph involve possible new local generation or new transmission to the area. Station and line upgrades in Guelph are also recommended, and conservation and distributed generation are included in plans for Cambridge and Guelph. Implementation of the solutions is still at an early stage. The OPA met with the local distribution companies in this area in 2008 and continued to keep abreast of changing circumstances, including their near-term needs to meet electricity demands. An extensive stakeholder engagement process is expected to begin in Kitchener-Waterloo-Cambridge-Guelph in 2009.

Supporting Electricity Sector Development in Ontario

The evolution of Ontario's power system requires removal of barriers to the development of transmission, adoption of conservation, enhancement of distributed generation and incorporation of renewable energy supply. The OPA engaged with the Ministry of Energy and Infrastructure, the Independent Electricity System Operator, the OEB, Ontario Power Generation and other stakeholders to identify and help resolve potential policy and project-specific barriers in these areas.

In 2008, the OPA's work with stakeholders to identify barriers to the development of distributed generation facilities, including small renewable energy supply resources, involved examining ways to streamline the regulatory framework to enable distributed generation. The OPA was involved on an ongoing basis in investigating the potential for distributed generation in urban as well as supply-constrained areas, such as central and downtown Toronto and Kitchener-Waterloo-Cambridge-Guelph. The OPA and Toronto Hydro are jointly conducting a study to investigate significant distributed generation penetration in central and downtown Toronto. The results of this study, the first of its kind in North America, are expected in 2009.

To identify and address barriers to infrastructure development and the incorporation of distributed generation, the OPA worked to streamline processes with the OEB, the Independent Electricity System Operator, Hydro One, the Electricity Distributors Association, local distribution companies and others. The OPA also supported the evolution of changes to the Transmission System Code and the Distribution System Code to encourage enabler lines and distributed generation.

At a local level, the OPA worked with municipal planners and local distribution companies to facilitate inclusion of electricity infrastructure and conservation in their planning processes.

The OPA continued to support the development of a forward market for electricity to help facilitate new conservation and generation investment by providing forward price signals to assist long-term contracting. In part based on the OPA's support, forward Ontario electricity contracts began trading on the Natural Gas Exchange in 2007. In February 2008, these contracts started listing on the world's largest commodity exchange, the IntercontinentalExchange® (ICE). Volumes continued to grow over the course of the year. More than 4.5 million megawatt-hours had been traded by the end of 2008, of which about 4.1 million were over-the-counter trades.

The OPA also facilitated the listing of forward power and heat-rate contracts (where two contracting parties agree to a fixed price for converting natural gas into electricity) and other electricity products on exchanges such as the ICE. In addition, it promoted the value of trading these products with potential participants.



Photo courtesy of Hydro One

The OPA worked closely with the Independent Electricity System Operator in this area.

Also in 2008, the OPA continued to work with stakeholders to examine the potential role of customer entitlement agents (called load-serving entities in other jurisdictions). These agents would represent small consumers in purchasing electricity in the wholesale market and help them manage their electricity costs more effectively. The OPA facilitated, researched, developed and managed customer entitlement agent pilot studies and dialogued with stakeholders to determine if customer entitlement agents could provide benefits to consumers. These efforts included the release in September of three discussion papers on this topic to generate dialogue within the industry. The OPA will continue to consult with policy-makers and stakeholders on the concept of customer entitlement agents and the benefits of conservation procurement and management.

As part of its ongoing sector development work with the Independent Electricity System Operator, the OPA consulted with stakeholders to better understand drivers for the global adjustment mechanism and explore ways to address its impacts. This mechanism, also called the "Provincial Benefit," is expected to increase as a result of new conservation and supply resources coming into service. This will mean that all ratepayers – residential, commercial/ institutional and industrial – will need tools to manage their electricity costs. These tools include conservation programs to assist ratepayers in managing their energy consumption.

A vision for a smart electricity grid for Ontario

Another important electricity sector development initiative is the Ontario Smart Grid Forum launched in 2008 by the Independent Electricity System Operator in collaboration with a number of industry partners. The forum is developing a vision for a provincial smart grid that would provide consumers with more efficient, responsive and cost-effective electricity service. Its goals are to increase the efficiency, reliability and flexibility of the grid through the use of advanced, information-based technologies that enable two-way flows of both information and electricity.

The smart grid would give electricity consumers opportunities to become more active participants in the real-time management of electricity demand through price signals and more options for managing their electricity demand. For example, smart meters and time-of-use pricing will enable customers to respond to price signals through automated demand response and in-home load control devices, similar to *peaksaver* devices currently used for central air conditioners. Such a grid is also expected to provide benefits to the environment.

The OPA actively participated to help evaluate the opportunities for enhancing distributed generation, energy efficiency and demand management initiatives provided by the future development of a smart grid. The focus of the forum is on opportunities in Ontario, but developments in other jurisdictions are being monitored as well. Activities needed to overcome barriers also will be identified. The forum released the results of its evaluation to the public early in 2009, including the next steps for the initiative. More information is available at www.ieso.ca/smartgrid.

Engaging with Stakeholders

Engaging with a broad array of stakeholders in Ontario's electricity sector through consultation and public communication and engagement activities remained a central priority for the OPA in 2008. The OPA strives to ensure that all those with an interest in the OPA's initiatives are able to share information and their experience and provide advice to the OPA early in the planning process. The OPA values all such feedback and ensures that it is given due consideration in its initiatives, activities and programs.

Stakeholder involvement was an important part of virtually every initiative and activity the OPA undertook in 2008, touching on all areas of its mandate. Particular areas of focus for continuing stakeholder engagement, communications and public outreach were areas with local supply constraints, procurements including changes to RESOP, and the OPA's conservation program initiatives.

The OPA engaged extensively with stakeholders in two of the areas facing reliability issues: the northern York Region and the southwestern Greater Toronto Area. Its activities included public advertising, attending meetings with local community groups and individuals and holding information sessions for the public – 15 were held in the northern York Region and four in the southwestern Greater Toronto Area. The OPA will continue to provide support in these areas as the solutions are implemented.

The OPA worked openly with all interested parties in both its standard procurements for combined heat and power and in its standard offer programs for renewable and clean energy. Stakeholder engagement activities provided important input into the development of requests

for expressions of interest, requests for proposals and contracts for standard procurements, as well as the design and refinement of the standard offer programs. The OPA also initiated its first annual general meeting on procurements to provide stakeholders with a forum within which to obtain more information and insights into current and upcoming generation procurements managed by the OPA.

In the area of conservation, the OPA continued to engage stakeholders, including local distribution companies, industry and trade organizations, environmental groups and other industry participants, to assist in developing and refining specific conservation program initiatives such as *peaksaver* and the low-income, single-family home initiative.

A wide range of communication channels was deployed to raise awareness of the OPA's mandate, initiatives and proposed plans and programs. These included webcasts and teleconferences, website communications, workshops, print and electronic media, advertising, OPA publications such as newsletters and brochures, as well as in-person meetings with stakeholders, executive speeches and special advisory groups. OPA executives gave more than 90 speeches in 2008 to a broad range of audiences, from business and industry leaders to government representatives, communities, consumer and environmental organizations. Many more presentations were made by OPA staff at various levels of the organization at events such as seminars, conferences and workshops.

Throughout its stakeholder engagement activities, the OPA strove to follow its guiding principles of relevance, inclusiveness, accessibility, transparency, meaningful contribution and disciplined and fair management.

Building Relationships with First Nations and Métis Communities

Outreach to First Nations and Métis Peoples continued in 2008 through the IPSP regulatory process and capacity-building agreements, as well as through an enhanced consultation process that began late in the year and will continue in 2009.

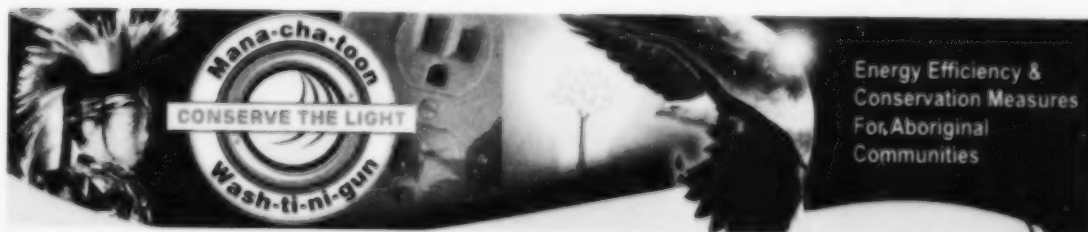
In 2008, the OPA focused on its priority to enter into capacity-building agreements and partnerships with First Nations and Métis organizations. By the beginning of 2009, capacity-building agreements were being put into place with the Union of Ontario Indians (Anishinabek) and the Métis Nation of Ontario. The OPA anticipates that similar agreements will be entered into with other Aboriginal organizations in 2009.

Capacity-building agreements are intended to assist First Nations and Métis organizations in building their capacity to participate effectively in consultations on this and subsequent IPSPs at both substantive and process levels. More specifically, these agreements are intended to enable these organizations to retain qualified staff who will help them further develop their understanding of Ontario's electricity system and communicate directly with their constituent member bands and communities on matters pertaining to the development of future IPSPs and procurement processes.

Following the September directive to the OPA to undertake an enhanced process of consultation with First Nations and Métis communities on the IPSP and to consider Aboriginal partnership opportunities in the generation and transmission of electricity, the OPA embarked on further consultations in late November, beginning with an address from the OPA's chief executive officer to the Chiefs of Ontario. Regional meetings were held in Thunder Bay and Toronto in December. These were followed by a further round of local and regional meetings early in 2009. The OPA also hosted province-wide webinars in early 2009 to further the dialogue and address questions from the regional meetings.

The OPA believes these efforts will support the development of a framework for sustained consultation with First Nations and Métis Peoples with respect to long-term power system planning issues in Ontario.

These formal consultation activities were separate from but coordinated with the OPA's activities to promote conservation awareness and support conservation initiatives with First Nations and Métis Peoples. An example of these activities is the Aboriginal conservation pilot initiative, which enabled the OPA to gain the insight and experience needed to deliver conservation programs to Aboriginal communities throughout Ontario.



A Sustainable Electricity Future: Next Steps

In its fourth year of operation, the OPA achieved a number of important goals and passed several key milestones. Solid progress was made toward realizing Ontario's goal of a sustainable electricity future.

In 2008, the OPA:

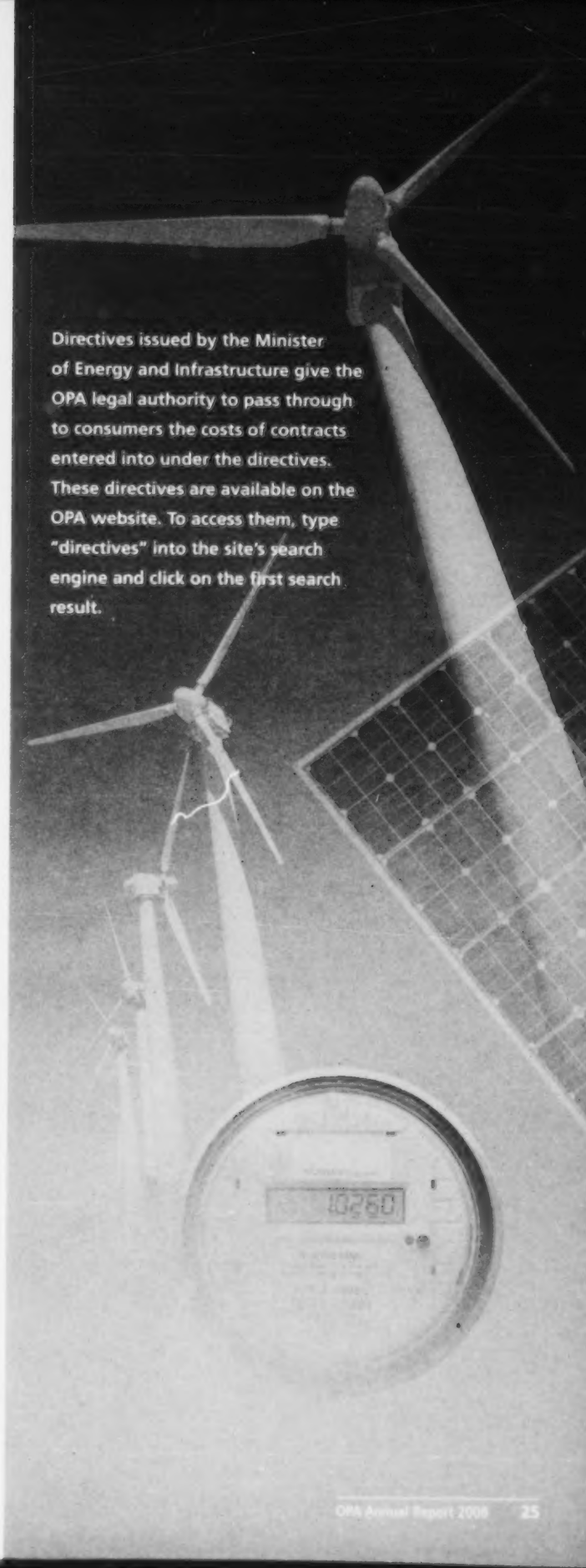
- announced that Ontario had achieved its first interim conservation target of a 1,350-megawatt peak demand reduction
- partnered with more than 70 local distribution companies to deliver conservation programs to 99 percent of Ontario's electricity customers
- exceeded the 11,000-megawatt mark for new contracts for new electricity supply, including 2,644 megawatts of renewable energy and 5,915 megawatts of clean energy
- worked to implement solutions in key areas facing local supply constraints, including procurements in the northern York Region and the southwestern Greater Toronto Area
- completed the interrogatories phase of the IPSP hearing, participated in the oral hearing that began on September 8 and began a review of the IPSP as directed by the Minister
- embarked on an enhanced consultation process with Aboriginal Peoples
- was involved in several key initiatives to develop Ontario's electricity sector for the benefit of all Ontarians.

While progress has been made toward ensuring a reliable, sustainable supply of electricity for Ontario, much remains to be accomplished. In 2009, the OPA's key activities will be to:

- work toward meeting the second interim conservation target of reducing peak demand by 1,350 megawatts by the end of 2010
- assist in the implementation of the proposed Green Energy Act, if passed by the legislature, by promoting conservation and renewable energy in Ontario and supporting the creation of green jobs
- continue to provide, in partnership with local distribution companies, a robust portfolio of conservation programs to Ontarians that delivers electricity savings, contributes to reduced peak demand and raises awareness of the value of conservation in the province
- increase the capacity of those working in the conservation sector, particularly program delivery agents such as local distribution companies, the supply chain and other influencers and customers
- continue to identify and support the implementation of appropriate minimum energy performance standards and remove barriers to conservation
- continue to procure renewable energy and combined heat and power to meet the megawatt targets set out in government directives
- enter into new procurement contracts with both small and large developers

- ensure that procurements are as efficient and effective as possible and develop new and improved mechanisms to procure different types of renewable and clean energy resources
- continue to engage in an enhanced process of consultation with First Nations and Métis communities on the IPSP and consider Aboriginal partnership opportunities in the generation and transmission of electricity, as well as put in place capacity-building agreements to increase their ability to participate in Ontario's electricity future
- continue to undertake the procurement for the supply-constrained southwestern Greater Toronto Area and develop solutions for other areas facing electricity supply constraints, such as Windsor-Essex and Kitchener-Waterloo-Cambridge-Guelph, including identifying and supporting conservation opportunities in all these areas
- develop a comprehensive assessment of barriers to distributed generation, including renewable supply
- continue to develop forward electricity markets to realize increased trading, identify a path to mitigate the effects on electricity customers of a rising global adjustment mechanism and make progress in reaching consensus on the use of customer entitlement agents in Ontario's electricity sector.

As in each of the four previous years, in 2009 the OPA's activities will maintain their core focus of serving the interests of Ontario's electricity consumers.

A composite image featuring a wind turbine, solar panels, and an electricity meter. The wind turbine is in the upper left, with its blades extending across the top. The solar panels are in the middle right, showing a grid pattern. The electricity meter is in the lower right, with a digital display showing the number 10260. The background is a dark, textured surface.

Directives issued by the Minister of Energy and Infrastructure give the OPA legal authority to pass through to consumers the costs of contracts entered into under the directives. These directives are available on the OPA website. To access them, type "directives" into the site's search engine and click on the first search result.

Management's Discussion & Analysis

The following is a discussion of the operating results and financial position of the Ontario Power Authority (OPA) for the year ended December 31, 2008. This analysis should be read in conjunction with the detailed financial statements and notes, which have been prepared in Canadian dollars and in accordance with Canadian generally accepted accounting principles.

Statement of Operations

Revenues

The OPA has three different sources of revenues:

Fees: Ontario electricity users pay for most of the OPA's operating budget through fees levied on their electricity consumption. This budget is reviewed annually by the Ontario Energy Board (OEB). Interested members of the public can participate in this review to comment on the budget and any items contained in it.

Registration Fees: The OPA collects fees from those who submit development proposals for new electricity production. The fees, which vary with the size and scope of the proposed development, are intended to defray the costs of reviewing proposals and help ensure that only qualified developers will submit bids.

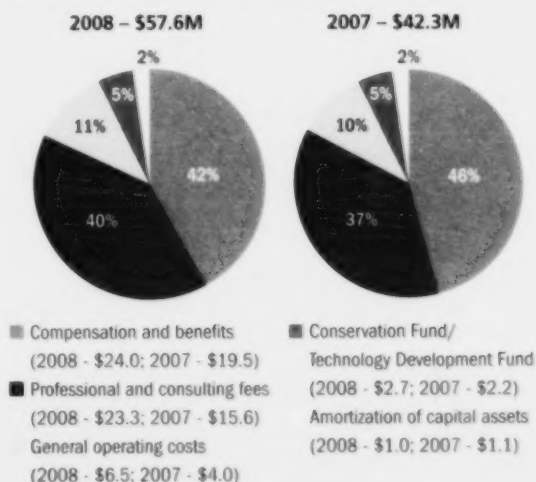
Interest Revenue: These are funds earned from the management of the OPA's cash balances.

In 2008, revenues fell \$2.3 million from the previous year to a total of \$53.4 million. The OPA intentionally sought approval for lower usage fees in 2008 from the OEB, even though projected expenses were considerably higher than 2007, in order to reduce prior year surpluses of \$16.2 million.

Expenses

Figure 1 shows the operating expenses of the OPA in 2008 and 2007.

Figure 1: 2008 and 2007 Operating Expenses



Compensation and Benefits

The OPA is predominantly a knowledge-based organization. As a result, the primary cost of its operations is the employment of highly qualified professionals. Costs in this category include staff salaries, pensions and benefits. Total costs for 2008 were \$24 million, with expenses for training, development, recruitment and professional membership fees contributing \$1.2 million to this total. For 2009, these non-compensatory items will be allocated to general operating costs to better reflect direct employment expenses going forward. The year-over-year increase of \$4.5 million for compensation and benefits reflects increased staffing, primarily in the areas of conservation, power system planning, electricity resources, finance and information systems.

Professional and Consulting Fees

This category captures the costs of the retention of professional services in audit, legal support, stakeholder consultation and external professional services. Fee expenses in 2008 were \$7.7 million higher than in 2007. This increase was primarily the result of activities undertaken following the filing of the Integrated Power System Plan (IPSP) with the OEB on August 29, 2007. These activities related to the OPA's participation in the regulatory review of the IPSP, including payment of cost awards to intervenors, preparation and provision of evidence, and legal and consulting efforts related to the oral hearing on the IPSP.

In addition, legal support increased in 2008 to assist in energy procurement activities, while other consulting fees increased to support conservation programs and conservation research. The OPA retained the Ontario Ministry of Finance's internal audit team to execute internal auditing, program verification and compliance reviews, in addition to the audit of the Regulated Price Plan (RPP). The auditors provided minor recommendations to the OPA for continued improvement.

Conservation Fund and Technology Development Fund

The key purposes of the OPA's Conservation Fund and Technology Development Fund are to support innovative approaches to conservation, build market capability and seed the development of emerging technologies.

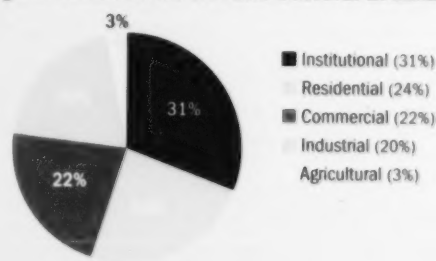
Calls for proposals were made three times in 2008 for each fund through a competitive process. In the first stage, expressions of interest are rigorously screened by a business and technical review committee and, if approved, applicants are invited to submit full proposals. The second stage involves an additional business and technical review by the committee, which is responsible for making funding recommendations to the OPA's Grant Award Committee. This committee consists of the chief executive officer of the OPA as chair, the

vice-president of conservation and sector development and one external reviewer from outside the energy sector.

Funded projects can last as long as 36 months, with the result that expenses can be incurred several years after a project has been awarded. In 2008, the OPA incurred expenditures of \$2.7 million against 98 projects – 68 Conservation Fund projects and 30 Technology Development Fund projects – some of which began in 2005.

The Conservation Fund was created in 2005 to support the development of conservation programs. The review process for this fund has been internally managed since that time. Since its inception, the Conservation Fund has provided funding to 68 projects for a total of \$8.6 million. These projects have attracted more than \$15 million in contributions from external participants such as businesses and university research programs. The projects funded to date by sector are shown in Figure 2.

Figure 2: Conservation Fund Sectoral Breakdown



More information on the Conservation Fund, including the projects it has funded and how to apply for funding, is available on the OPA website at www.powerauthority.on.ca/cfund.

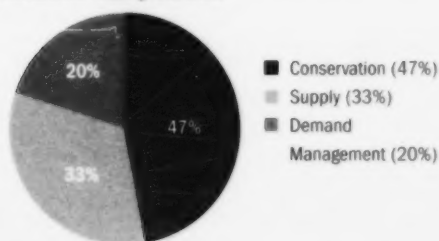
The Technology Development Fund was created in 2006 to support the development of emerging electricity supply or conservation technologies. In 2008, a new review process was designed and implemented for the fund that used both internal and external technical expertise.

Discussion & Analysis (continued)

This process gives applicants three ways to access the fund: through the OPA directly, with its new, internally managed review process; through the Ontario Centres of Excellence – Centre for Energy; or through the Centre for Energy Advancement through Technological Innovation.

The Technology Development Fund has provided \$3.1 million to 30 projects since its inception. These projects have leveraged \$35.6 million in external contributions. The composition of the technologies in the portfolio to date is shown in Figure 3.

Figure 3: Technology Development Fund Portfolio Composition



More information on the Technology Development Fund, including the projects funded and how to apply to the fund, is available at www.powerauthority.on.ca/tdfund.

General Operating and Financing Costs

General operating costs are the indirect costs associated with delivering the OPA's mandate. They include costs for such items as conferences, meetings, travel, communications, publications, office facilities and information systems. Due to growth at the OPA, 2008 program and administrative costs were \$0.9 million higher than in 2007. In addition, expansion of office space in 2008 to accommodate increased staff resulted in a cost increase of \$0.5 million. Also in 2008, the OEB began charging the OPA for activities undertaken by the OEB in support of OPA-led initiatives. These charges resulted in an additional \$1.1 million expense in 2008. Overall, the OPA's general operating costs increased by \$2.5 million

in 2008. This increase was partly offset by a \$1-million reduction in financing costs from the previous year.

Amortization of Capital Assets

The OPA's capital assets consist mainly of furniture and fixtures, computing hardware and software, leasehold improvements, telephones and audio-visual equipment. All assets are amortized on a straight-line basis over their estimated service lives. Service life varies by asset class, as outlined in note 2 of the financial statements.

Other Income and Expenses

This category includes interest incurred to finance operations, expenses associated with asset disposals and other miscellaneous expenses. In early 2007, the OPA financed office expansions and conservation programs in advance of receiving the offsetting funds from the electricity market. In late 2007 and throughout 2008, operating revenues exceeded expenditures for operations and financing was not required.

Statement of Financial Position

Assets

Current Assets

Cash balances are maintained to optimize short-term interest returns on funds received for the RPP. Accounts receivable holds the estimated amounts for electricity procurements to be received in the following month. Year-over-year changes relate entirely to changes in the size of estimated electricity procurements.

Regulatory Assets

To provide greater transparency and assist readers of the financial statements in identifying the OPA's ongoing costs of operations, the activities and balances in certain accounts – including the RPP, retailer settlement deferral and government procurement deferral accounts – have been separated from operating costs and aggregated on the OPA's balance sheet as “regulatory assets and regulatory liabilities.”

Regulated Price Plan

The price of electricity for most Ontario consumers is regulated by the OEB, which sets prices for future periods of six months. Any difference between the regulated price and the actual price paid for electricity during that period (which depends on factors such as peak demand) results in a variance that is paid or recovered by the OPA and reflected in subsequent rate decisions by the OEB.

Changes in the RPP variance amount are driven by differences between the hourly Ontario electricity price (HOEP) paid to producers and the regulated price charged to Ontario consumers. During much of 2007, the hourly price was lower than the regulated price, creating an increase in the liability amount owed to consumers that was reflected in the ending balance. Beginning in early 2008, the combination of a higher hourly price and a lower regulated price reversed this trend, causing the

liability balance to fall to \$63.2 million at the end of 2008 from \$145.5 million at the end of 2007. The RPP variance amount in relation to the monthly average HOEP is shown in Figure 4.

Additional information on the RPP variance amount can be found on the OEB website under Industry Relations, OEB Key Initiatives, and accessed by clicking "View active projects in alphabetical order" or by clicking on the "Rate Policies" topic link.

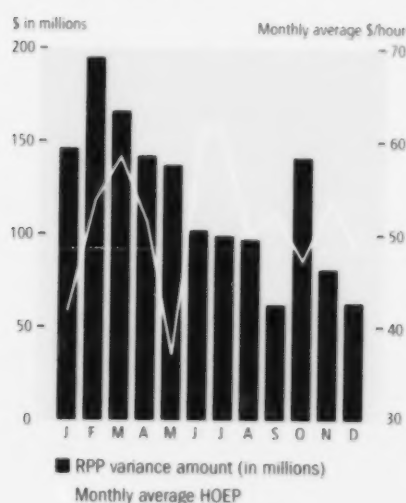
Retailer Settlement Deferral Accounts

The OPA has a legislated responsibility to fund and track the assets and liabilities that arise due to retailer contractual obligations existing prior to electricity prices being frozen effective November 11, 2002. In 2008, HOEP exceeded retailer contract prices on average, creating a liability of \$0.3 million payable to the electricity market. The net interest charged on prior year balances was \$1.4 million. This increased the total amounts collectable from the electricity market to \$43.2 million at the end of 2008 from \$42.1 million at the end of 2007.

Government Procurement Deferral Account

Expenses incurred by the provincial government related to electricity procurements are transferred to the OPA. In its 2009 revenue requirement submission to the OEB, the OPA requested recovery of the existing balance for the 2008 revenue requirement over the 12 months of 2009. Any remaining balances will be included in future revenue requirement submissions. In 2007, the balance in the account was \$1.3 million. In 2008, the OPA received net transfers of \$0.1 million, bringing the balance to \$1.4 million at the end of 2008.

Figure 4: RPP Variance Amount versus Average HOEP for 2008



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
RPP variance amount (\$ in millions)	146	195	166	142	137	102	99	97	62	141	81	63
Monthly average HOEP (\$/hour)	42.46	54.35	58.21	51.42	36.51	62.29	62.26	50.01	52.28	47.07	53.63	48.34

Discussion & Analysis (continued)

Global Adjustment Account

The global adjustment account records the cash flows related to procurement contracts held, managed or under the responsibility of the OPA. This includes contracts associated with the standard offer program, generation procurement, conservation, demand response, non-utility generators, certain prescribed Ontario Power Generation (OPG) hydroelectric generation and nuclear generation.

The account is settled monthly; however, the settlement process for OPA contracts requires an estimate of the balance owing. The variance between the actual and estimated balance is adjusted in the following month's settlement. A variance of \$65.1 million existed at December 31, 2008 and was reclassified as a receivable for reporting purposes. As a result, the global adjustment account had a zero balance at December 31, 2008.

Liabilities and Net Assets

Current Liabilities

Accounts payable and accrued liabilities reflect the accrual of electricity market settlements due in the following month. The year-over-year change is entirely due to the difference in the estimated market liability.

Net Assets

Net assets include net capital assets and the accumulated balance of the excess or deficiency of revenues less expenses. The OPA's net capital asset base is employee-related. Growth in the organization from its inception in 2005 has resulted in a general increase in office space, furniture and equipment-related expenses. In 2008, the total OPA investment in capital assets grew by \$0.5 million. Included in net assets are amounts

that have been committed to approved Conservation Fund and Technology Development Fund projects but not yet spent. This balance is depleted over time as the approved projects incur expenses. The expenses flow through the OPA statement of earnings to the net asset balances for the respective funds.

The OPA's total net assets decreased by \$4.2 million in 2008, largely because expenses exceeded revenues. As noted above, the OPA deliberately lowered its revenue request by \$3 million in 2008 to reduce its accumulated surplus. The other major factor was an increase of \$0.5 million in spending for the Conservation Fund and the Technology Development Fund.

Liquidity and Cash Flows

Liquidity

The OPA's financing requirements are mainly short-term and are primarily used to fund the RPP and retailer settlement deferral account balances. The aggregate of the account balances fluctuates monthly and can move to either a credit or a debit position. The OPA has a \$975-million line of credit with the Province of Ontario to fund the fluctuations. The line of credit was unused as at December 31, 2008. It was renewed in 2006 for a three-year period from January 1, 2007 to December 31, 2010.

To support this line of credit and provide a measure of the OPA's creditworthiness to counterparties, the OPA engages the rating services of the Dominion Bond Rating Service Inc. (DBRS) and Moody's Investors Service Inc. (Moody's). In 2008, both DBRS and Moody's confirmed their ratings on the OPA's credit line (see Table 1). The DBRS confirmation was issued November 28, 2008 and Moody's confirmed its rating on June 16, 2008.

Table 1: OPA Agency Credit Rating

Rating Agency	Rating	Rating Action	Trend
Dominion Bond			
Rating Service Inc. (DBRS)	AA (low)	Confirmed	Stable
Moody's Investors			
Service Inc. (Moody's)	Aa1	Confirmed	Stable

Cash Flow

Cash provided by operating activities for the year ended December 31, 2008 was negative \$17.6 million, compared with a positive \$71.6 million for the prior year. The decrease is primarily due to a decrease in the RPP variance liability. Deficiency of revenue over expenses, an increase in the accounts receivable related to conservation charges and a decrease in long-term liabilities that were payable to the Independent Electricity System Operator (IESO) at year-end also contributed to the reduction in the ending cash balance. The most significant change in the OPA's cash position resulted from a decrease in the regulatory liabilities stemming from the RPP variance account. The RPP balance started the year at \$145.5 million and ended the year at \$63.2 million.

Risk Management

Operational Risk

The OPA reviews its enterprise-wide risk annually to identify the internal and external risks to the achievement of its mandate. This assessment is vital to ensure that the OPA develops mitigating strategies and incorporates the required responses into its daily operations. The risk management plan is reviewed and approved by the Board of Directors and contributes to the development of the OPA's annual business plan. Each business unit of the organization establishes annual business objectives that incorporate mitigating

responses to the risks affecting its functions identified in the risk management plan. In 2008, the OPA developed its first three-year business plan, covering the period from 2009 to 2011. This plan directly ties performance objectives and activities to strategic objectives and the mitigation of risk.

The OPA has engaged an outside service provider for internal audit services from April 1, 2008 to April 30, 2010. This program is designed to provide an independent review of its risk management policies and the effectiveness of its internal systems and procedures. The program will further enhance the OPA's risk management and inform its future policy development and programs to mitigate financial and operational risks inherent in the enterprise.

Regulatory Risk

The OPA is subject to regulatory risks, including a review of its revenue requirement by the OEB. Revenues are required to execute the OPA business plan. A denial of portions of the OPA's proposed operating budget could affect the OPA's ability to deliver on its mandate as prescribed by legislation and developed further by government directives and the IPSP.

Emerging Accounting Pronouncements

The OPA is preparing to transition from Canadian generally accepted accounting principles to International Financial Reporting Standards (IFRS). In May 2008, the Canadian Accounting Standards Board confirmed that the conversion will be effective as of January 1, 2011 for publicly accountable enterprises. In preparation for the changeover, the OPA started staff training in 2008 and will formulate planning objectives in 2009, with execution starting in 2010. IFRS conversion is expected to affect existing management and financial reporting, including accounting policies, budgets and forecasts.

Discussion & Analysis (continued)

The OPA must consider the effect of IFRS on rate-regulated accounting, as there is no corresponding guidance under IFRS for regulatory transactions. New review and approval procedures may need to be considered to address IFRS implications for new program and contract initiatives. For example, additional consideration may be required when evaluating the viability of new contracts where service providers do not use IFRS as the basis of their financial reporting.

Disclosure Controls and Internal Controls over Financial Reporting

Management has created a system of internal controls designed to provide reasonable assurance that assets are safeguarded and reliable information is available on a timely basis. In 2007, the OPA initiated formal reviews of its procurement policy, internal controls over contract management and a risk-based internal control review of the organization. The results of the reviews contributed to the development of an internal control framework.

Implementation of the framework began in 2008 and will conclude in 2009. The OPA will also require management certifications of internal controls and letters of representation on the reasonableness of financial information and compliance with the OPA code of conduct.

Executive Compensation Plan

Program Objectives

The OPA compensation program is an integrated program for all executive staff. It is designed to attract, retain and motivate the calibre of executives required to support the achievement of the OPA's statutory mandate, corporate vision and business objectives. Accordingly, the compensation philosophy and program have the following objectives:

- to focus executives on meeting the OPA's business objectives
- to attract qualified and talented executive staff needed to carry out the OPA's mandate
- to retain valued executive staff
- to provide flexibility to differentiate total compensation for specific executives based on individual results and demonstrated competencies
- to establish compensation levels that are responsible and defensible to stakeholders.

The philosophy underlying these objectives is that the total compensation for executive management should be sufficient, but not more than required, to attract the skills and competencies needed to carry out the OPA's mandate.

Program Governance

The Board of Directors establishes the objectives for the compensation program. It delegates to the Human Resources Committee of the Board of Directors the responsibility to review thoroughly the compensation objectives, policies and programs and make recommendations concerning them to the full Board of Directors for approval. In carrying out their mandate, members of the Board of Directors have access to management's perspectives as well as those of expert consultants in the compensation field, including specialists at the Hay Group. The program is reviewed at least

annually in terms of business needs, program objectives and design, industry compensation trends, internal compensation relativities and external market relativities.

In addition to the formal governance and oversight structure in place for compensation matters, the OPA annually discloses compensation levels for staff earning above \$100,000 as part of its public sector salary disclosure under the *Public Sector Salary Disclosure Act (Ontario)*. For the OPA, a further level of public review and assurance is provided through a statutorily required annual fee review by the OEB. Compensation matters, including management compensation and market relativities, are addressed during this review. A broad range of small and large stakeholder groups, assisted by their legal and professional advisors, are represented in these public proceedings. The OPA is also responsive to various requests by the Ministry of Energy and Infrastructure in relation to compensation enquiries. These include the Agency Review Panel's 2007 review and report on senior management compensation for agencies in the Ontario electricity sector.

Program Description

The program includes fixed and variable compensation, core benefit plans and pension provisions. For the fixed compensation plan, the Board of Directors establishes broad salary ranges for each level of executive, taking into account comparable market relativities. Within these bands, individuals are assessed, based upon demonstrated competency, as developmental, capable/skilled or expert in their position, relative to the success factors set out in the OPA's established competency profile for executives. This profile consists of behavioural competencies, such as: planning, deciding, influencing/advising, motivating, implementing/controlling, public relations/developing relationships, appraising people, evaluating issues/ideas,

working with others and disciplining/handling disputes. Each executive's level of achievement with respect to reaching annual objectives is also evaluated. Based on these two criteria, each individual is assigned a corresponding fixed compensation level within the band.

The variable pay plan was established to promote a results orientation in the executive team. For the executives, the variable pay plan provides for annual incentive payments of up to 15 percent of fixed compensation. The Board of Directors annually establishes a robust set of performance objectives and expectations which is evaluated at the end of each year. Decisions regarding the actual variable compensation amount awarded to each eligible individual are based upon individual performance against these criteria. The variable pay pool for executives was set at 12 percent of the sum of their annual fixed compensation and was distributed to individual executives based on an assessment of their 2008 performance. The total incentive payments to executives were within the established budget of 12 percent.

The OPA provides a group benefit plan and pension benefits through the Public Service Pension Plan for the current and future well-being and financial security of its executives. The group benefit plan provides a core level of health and dental benefits, life insurance, disability coverage and vacation.

The defined benefit pension plan provides two percent of earnings per credited year of service. After age 65, this pension is reduced to reflect provisions of the Canada Pension Plan. Retirement income is provided through a registered pension plan and a supplemental employee retirement plan. The OPA and plan members both contribute to the plan.

Management's Discussion & Analysis (continued)

Performance Measures and Impact on Compensation

The OPA annually establishes corporate performance measures relating to its strategic priorities. As outlined above, the results achieved every year have an impact on each executive's variable pay. Table 2 highlights the business priorities for which objectives are established and provides a brief description of the OPA's strategies and goals.

Table 2: **OPA Business Priorities,
Strategies and Goals**

Business Priority	Strategies and Goals
Planning	Plan for an adequate, reliable and sustainable system that addresses conservation, generation and transmission (IPSP).
Conservation	Contribute to the achievement of Ontario's conservation resource targets and to fostering a culture of conservation using market-based approaches.
Electricity Resources	Consistent with the IPSP and ministerial directives, ensure that Ontario has diverse electricity generation resources.
Sector Development	Define sector development goals and facilitate the efficient allocation of risk between customers and investors in conservation and generation.
Corporate Support	Maintain and develop organizational capacity to achieve the strategic objectives.

The following five-point rating scale is used to determine the results for both corporate and individual performance objectives and to calculate the associated variable pay amount:

1. **Did not achieve objectives:** Did not achieve expected objectives and/or did not demonstrate an acceptable level of performance.
2. **Partially achieved objectives:** Achieved only part of the expected objectives. Consistently demonstrated a solid level of performance on some requirements but not all.
3. **Achieved objectives:** Achieved expected objectives and consistently demonstrated a solid level of performance.
4. **Exceeded objectives:** Exceeded the expected objectives and consistently demonstrated a high level of performance.
5. **Greatly exceeded objectives:** Significantly exceeded expected objectives and consistently demonstrated an outstanding level of performance.

Other Considerations

Benchmark compensation data for similar positions in several jurisdictions across Canada are used to establish the compensation program for the following year. In accordance with the Agency Review Panel's 2007 recommendations, the comparator organizations are a combination of private and public sector, the comparator data are weighted on a 50/50 private/public sector basis, and the mid-points of the OPA salary ranges are aligned with the 50th percentile of the comparator data.

Compensation decisions may at times be affected by market factors, such as the recruitment of an executive with specialized skills and competencies or possessing unique talents within the industry.

Executive Compensation Statement

Table 3 sets out the annual compensation for the year ended December 31, 2008 for the listed executive officers. It will eventually report compensation over a rolling three-year period. The total cash compensation information provided below differs from the information published under the *Public Sector Salary Disclosure Act (Ontario)* for the indicated period, due to the inclusion of employer pension-related payments and employer-paid benefits in the public sector salary disclosure information. Disclosures under the act are the amounts listed on T4 taxation forms for each year.

Table 3: Summary of Executive Compensation¹

Name, Position Title	Year	Salary	Performance Incentive	Total Cash Compensation	Amounts Reportable Under <i>Public Sector Salary Disclosure Act</i> ²
Jan Carr, ³ Chief Executive Officer	2008	\$434,712	\$45,000	\$479,712	\$511,602
	2007	\$550,000	\$74,250	\$624,250	\$650,728
Colin Andersen, ⁴ Chief Executive Officer	2008	\$160,000 ⁵	\$18,958 ⁶	\$178,958	\$179,190
Kimberly Marshall, ⁷ Vice-President, Finance and Administration (CFO)	2008	\$181,923	\$26,400	\$208,323	\$209,102
Amir Shalaby, Vice-President, Power System Planning	2008	\$364,000	\$45,500	\$409,500	\$450,365 ⁸
	2007	\$350,000	\$45,500	\$395,500	\$443,061
JoAnne Butler, ⁹ Vice-President, Electricity Resources	2008	\$325,981	\$40,200	\$366,181	\$402,068 ¹⁰
Paul Shervill, Vice-President, Conservation and Sector Development	2008	\$308,275	\$33,910	\$342,185	\$352,348
	2007	\$289,424	\$38,981	\$328,405	\$341,292

¹ Executives are listed in the following order:

Chief Executive Officers, Chief Financial Officer, then in alphabetical order by first name.

² Total T4 income, including taxable benefits.

³ Retired, effective September 14, 2008.

⁴ Hired, effective September 15, 2008.

⁵ Includes a one-time only financial adjustment payment of \$20,000, reflecting transition costs incurred by Mr. Andersen in accepting an offer of employment from the OPA.

⁶ In 2008, the OPA's Board of Directors awarded Mr. Andersen an incentive payment based on his early performance in the role of CEO, prorated for the period of time he was employed at the OPA.

⁷ Hired, effective February 25, 2008.

⁸ Includes a payment in lieu of pension benefits.

⁹ Hired, effective January 2, 2008.

¹⁰ Includes a one-time only financial adjustment payment of \$35,000, reflecting transition costs incurred by Ms. Butler in accepting an offer of employment from the OPA.

Management's Discussion & Analysis (continued)

The pension benefits of these executives are summarized in Table 4.

Table 4: Summary of Pension Benefits

	Credited Years of Service ¹¹	Deferred Annual Pension Payable at Age 65 ¹²	Credited Years of Service at Age 65 ¹³	Annual Pension Payable at Age 65 ¹⁴
Jan Carr ¹⁵	4 years, 6 months	n/a	n/a	\$ 44,273.72
Colin Andersen	21 years, 4 months	\$ 104,903.51	40 years, 10 months	\$ 415,651.13
Kimberly Marshall ¹⁶	10 months	n/a	16 years, 7 months	\$ 68,183.51
JoAnne Butler ¹⁷	1 year	n/a	14 years	\$ 89,584.75
Paul Shervill	24 years, 6 months	\$ 94,174.87	31 years	\$ 164,283.09

Board of Directors Compensation

The Board of Directors is responsible for the stewardship of the OPA. It is composed of 10 independent, external directors, appointed by the Minister of Energy and Infrastructure, with broad experience in both industry and public sector organizations, plus the chief executive officer. The directors have a duty to act honestly and in good faith in the best interests of the OPA. They are expected to exercise prudence and sound judgment in the decisions they make and to use their professional knowledge and expertise in performing their duties.

In 2008, the OPA compared its directors' fees to those of comparable agencies and found that its fees were closely aligned with the fees paid by these organizations. In 2009, cognizant of expense restraint measures within the OPA and to lead by example, the Board of Directors is reducing all members' fees by 10 percent for a one-year term.

¹¹ Although the OPA has existed for fewer than four years, some of the named executive officers may have additional years of credited service due to their participation in the Public Sector Pension Plan with other public sector employers, or due to reciprocal pension agreements with other organizations in the electricity sector.

¹² Assuming named executive officer terminated from pension plan as at December 31, 2008.

¹³ Assuming named executive officer continues to work up to age 65.

¹⁴ Assuming named executive officer's salary remains the same until age 65 as at December 31, 2008.

¹⁵ Retired September 14, 2008; immediate pension payable from October 1, 2008.

¹⁶ Non-vested named executive officer as at December 31, 2008.

¹⁷ Non-vested named executive officer as at December 31, 2008.



Auditor's Report

To the Board of Directors

We have audited the statement of financial position of the Ontario Power Authority as at December 31, 2008, and the statements of operations, cash flows and changes in net assets for the year then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Authority as at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
Toronto, Canada, January 30, 2009

Statement of Financial Position

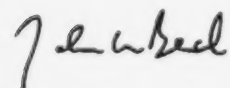
(in thousands of dollars)

December 31, 2008, with comparative figures for 2007

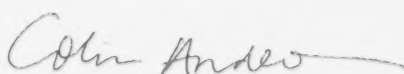
	2008	2007
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 50,067	\$ 161,128
Accounts receivable (note 3)	73,515	52,676
Prepaid expenses	301	60
	123,883	213,864
Capital assets (note 4)	5,484	5,036
Regulatory assets (note 5)	44,614	43,329
Total Assets	\$ 173,981	\$ 262,229
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 95,795	\$ 88,253
Contract deposits (note 7)	532	1,296
	96,327	89,549
Deferred rent inducement, net (note 8)	980	1,122
Long-term liabilities	1,488	9,815
Regulatory liabilities (note 5)	63,188	145,546
NET ASSETS		
Internally restricted Conservation and Technology Development Funds (note 9)	6,039	4,282
Investment in capital assets	5,484	5,036
Accumulated operating surplus	475	6,879
	11,998	16,197
Commitments (note 8)	—	—
Contingencies and guarantees (note 14)	—	—
Total Liabilities and Net Assets	\$ 173,981	\$ 262,229

See accompanying notes to financial statements.

On behalf of the Board of Directors:



John Beck
Chair



Colin Andersen
Chief Executive Officer

Statement of Operations

(in thousands of dollars)

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Revenue		
Fees	\$ 52,530	\$ 55,470
Registration fees	733	—
Other income	155	—
Interest income	—	219
	53,418	55,689
Expenses		
Compensation and benefits	23,942	19,478
Professional and consulting fees	23,343	15,600
General operating expenses (note 10)	6,530	3,975
Conservation Fund and Technology Development Fund expenses (note 9)	2,743	2,187
Amortization of capital assets	1,030	1,070
	57,588	42,310
Excess (deficiency) of revenue over expenses before operating interest	(4,170)	13,379
Operating interest expense	29	—
Excess (Deficiency) of Revenue Over Expenses	\$ (4,199)	\$ 13,379

See accompanying notes to financial statements.

Statement of Cash Flows

(in thousands of dollars)

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Cash Flows from Operating Activities		
Excess (deficiency) of revenue over expenses	\$ (4,199)	\$ 13,379
Items not involving cash:		
Amortization of capital assets	1,030	1,070
Amortization of deferred rent inducement	(142)	(144)
Change in non-cash operating items (note 12)	(14,302)	57,298
	(17,613)	71,603
Cash Flows from Financing and Investing Activities		
Repayments to Ontario Financing Authority	–	(140,322)
(Increase) decrease in regulatory assets	(1,285)	46,529
Increase (decrease) in regulatory liabilities	(82,358)	145,546
Decrease in long-term liabilities	(8,327)	–
Receipts of tenant improvement allowance	–	71
Purchase of capital assets	(1,478)	(2,589)
	(93,448)	49,235
Increase (Decrease) in Cash and Cash Equivalents	(111,061)	120,838
Cash and cash equivalents, beginning of year	161,128	40,290
Cash and Cash Equivalents, End of Year	\$ 50,067	\$ 161,128

See accompanying notes to financial statements.

Statement of Net Assets

(in thousands of dollars)

Year ended December 31, 2008, with comparative figures for 2007

	Net Assets Invested in Capital Assets	Internally Restricted (see note 9)	Accumulated Operating Surplus	Total Net Assets 2008	Total Net Assets 2007
Balance, Beginning of Year	\$ 5,036	\$ 4,282	\$ 6,879	\$ 16,197	\$ 2,818
Excess (deficiency) of revenue over expenses	(1,030)	—	(3,169)	(4,199)	13,379
Establishment of Funds					
Conservation Fund	—	3,000	(3,000)	—	—
Technology Development Fund	—	1,500	(1,500)	—	—
Conservation Fund expenses	—	(1,641)	1,641	—	—
Technology Development Fund expenses	—	(1,102)	1,102	—	—
Investment in capital assets	1,478	—	(1,478)	—	—
Balance, End of Year	\$ 5,484	\$ 6,039	\$ 475	\$ 11,998	\$ 16,197

See accompanying notes to financial statements.

Notes to

Financial Statements

(in thousands of dollars)

Year ended December 31, 2008

1. Nature of operations

The *Electricity Restructuring Act, 2004* (the Act), established the Ontario Power Authority (OPA) as a non-share corporation on December 20, 2004. The OPA is an independent non-profit, non-taxable corporation. The OPA is not a Crown agent and recovers its costs through fees approved by the Ontario Energy Board (OEB) and through charges to the electricity market through the global adjustment mechanism. In accordance with the Act, the OPA's main objectives are:

- to forecast electricity demand and the adequacy and reliability of electricity resources for Ontario for the medium and long term
- to conduct independent planning for electricity generation, demand management, conservation and transmission, and develop integrated power system plans for Ontario
- to engage in activities in support of the goal of ensuring adequate, reliable and secure electricity supply and resources in Ontario
- to engage in activities to facilitate the diversification of sources of electricity supply by promoting the use of cleaner energy sources and technologies, including alternative and renewable energy sources
- to establish system-wide goals for electricity to be produced from alternative and renewable energy sources
- to engage in activities that facilitate load management
- to engage in activities that promote electricity conservation and the efficient use of electricity
- to assist the OEB by facilitating stability in rates for certain types of customers
- to collect and provide to the public and the OEB information relating to medium- and long-term electricity needs of Ontario and the adequacy and reliability of the integrated power system plan to meet those needs.

The OPA's ability to continue as a going concern is dependent upon its ability to obtain financing to support its operations. The OPA's creditworthiness is attested to by the following:

- the ability of the OPA to meet its obligations is provided for in legislation
- the OPA's minimal counterparty risk, given that its principal counterparty is the Independent Electricity System Operator (IESO), a creation of the province and a strong counterparty.

2. Significant accounting policies

(a) Basis of presentation

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Revenue recognition

Amounts received in the current year that relate to services and programs to be determined in subsequent years are not recognized as revenue and are deferred.

Fees earned by the OPA are based upon OEB-approved rates for electrical energy withdrawn from the IESO-controlled grid by electricity consumers of Ontario. Such revenue is recognized in the year in which it is earned.

(c) Cash and cash equivalents

Cash and cash equivalents are comprised of bank deposit balances, term deposits and other short-term investments with original maturity dates of up to 120 days.

(d) Capital assets

Capital assets are recorded at cost and are amortized on a straight-line basis over their estimated service lives, as follows:

Assets	Estimated Average Service Life
Furniture and equipment	10 years
Computer hardware and software	2.5 years
Audio-visual equipment	10 years
Telephone system	5 years
Leasehold improvements	Term of lease

Long-lived assets, including capital assets, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the statement of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held-for-sale would be presented separately in the appropriate asset and liability sections of the statement of financial position. In 2008, no impairment is considered necessary.

(e) Employee pension benefits

The OPA provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the OPA has insufficient information to apply defined benefit plan accounting to this pension plan.

The OPA is not responsible for the cost of employee post-retirement, non-pension benefits. These costs are the responsibility of the Ontario Pension Board.

(f) Measurement uncertainty

Uncertainty in determining the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when it is reasonably possible that there could be a material variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used. Measurements of uncertainty in these financial statements exist in the valuation of the power purchase contracts and the estimated defeasance date for the OPA's obligations. Estimates are based on the best information available at the time of preparation of the financial statements and are updated annually to reflect new information as it becomes available.

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

(g) Emerging accounting changes

In August 2007, Canada's Accounting Standards Board (AcSB) issued a decision, effective January 1, 2009, to withdraw the temporary exemption in CICA Handbook Section 1100, Generally Accepted Accounting Principles, which permits the recognition and measurement of assets and liabilities arising from rate regulation. The OPA is currently assessing the impact of the AcSB's decision on its financial statements.

Notes to

Financial Statements (continued)

3. Accounts receivable

	2008	2007
Receivable from IESO	\$ 65,146	\$ -
Conservation charges	7,961	22,464
Other	408	30,212
	\$ 73,515	\$ 52,676

4. Capital assets

	Cost	Accumulated amortization	2008 Net book value	2007 Net book value
Furniture and equipment	\$ 2,547	\$ (566)	\$ 1,981	\$ 1,857
Computer hardware and software	1,901	(1,398)	503	529
Audio-visual equipment	229	(58)	171	190
Telephone system	208	(66)	142	102
Leasehold improvements	3,461	(774)	2,687	2,358
	\$ 8,346	\$ (2,862)	\$ 5,484	\$ 5,036

5. Regulatory assets and liabilities

Regulatory assets, liabilities and deferrals arise as a result of the *Electricity Act, 1998* and the regulations thereunder and are reflected by the balances in the Regulated Price Plan (RPP), retailer contract settlement deferral accounts, government procurement deferral account and the global adjustment account. In the absence of rate-regulated accounting, these amounts would have flowed through the statement of operations when incurred.

	2008	2007
Total regulatory assets	\$ 44,614	\$ 43,329
Total regulatory liabilities	(63,188)	(145,546)

RPP variance accounts

While prices for RPP consumers are set every six months by the OEB based upon a forecast of the cost of power over the next year, it is likely that there will be a difference between the actual and forecast cost of supplying electricity to all RPP consumers. When the hourly Ontario energy price (HOEP) is greater than the RPP, the OPA pays the excess amount and records a regulatory asset as the electricity market funds paid are receivable from the market. When HOEP is less than the RPP, the OPA receives the difference and records a regulatory liability as the funds received will be returned to the market. The OPA tracks this variance in the RPP variance account. The Ontario Power Generation (OPG) rebate is equivalent to the difference between the revenue limit for specific OPG generating facilities and the revenue OPG actually received in the IESO wholesale spot market for that generation.

	2008	2007
OPG rebate contribution	\$(543,305)	\$ (423,892)
Total RPP variance before interest	463,661	257,901
Interest earned	16,456	20,445
	\$ (63,188)	\$ (145,546)

Retailer contract settlement deferral accounts

Legislative provisions ensure that electricity retailers will be made whole by the OPA for contracts with low-volume and designated consumers that were entered into before prices were frozen by legislation effective November 11, 2002. The OPA and retailers settling any differences between HOEP and the contract price for each contract meet these provisions. When HOEP is greater than the contract price, the OPA receives payments from the retailers and records a regulatory liability. When HOEP is less than the contract price, the OPA pays the retailer and records a regulatory asset. The OPA tracks these variances in the retailer contract settlement deferral accounts.

The retailer contract discount settlement account captures the funds related to the retailer incentives existing at the creation of the RPP. The retailer incentives captured are held in a separate deferral account for settlement concurrent with the retailer contract settlement deferral accounts.

As the contracts to which the retailer contract settlement deferral accounts relate have now largely expired, it is appropriate to begin disposing of the balances in these accounts. To mitigate ratepayer impact, the OPA will recover the accumulated balance of total retailer contract settlements over a three-year period from 2009 to 2011. This balance will be recovered through an addition to the usage fee.

	2008	2007
2005 retailer contract settlement deferral account	\$ (39,233)	\$ (37,976)
2006 retailer contract settlement deferral account	51,833	50,173
2007 retailer contract settlement deferral account	35,700	34,548
2008 retailer contract settlement deferral account	(282)	-
Retailer contract discount settlement deferral account	(4,847)	(4,692)
	\$ 43,171	\$ 42,053

Government procurement deferral account

The OPA reimburses the government for costs incurred for electricity procurement and records the costs as a regulatory asset. The government procurement costs of \$1,341 as requested in the 2009 revenue requirement submission will be recovered in 2009. The remaining balance of \$102 will be submitted in the 2010 revenue requirement submission.

	2008	2007
Government procurement costs	\$ 1,443	\$ 1,276

Global adjustment account

The OPA has a legislated responsibility to record the transactions flowing through the global adjustment mechanism. The global adjustment and settlement accounts have been created for this purpose. The nature of the global adjustment transactions results in a zero balance in the account on a monthly basis. The information and explanation below provide transparency for the transactions flowing through the global adjustment mechanism.

The global adjustment and settlement accounts record charges that flow between the OPA and the IESO. The account flows include the amounts paid and received for Demand Response 3 (DR3), non-utility generation (NUG), regulated nuclear generation balancing amount (nuclear) and regulated hydroelectric generation balancing amount (hydro). These accounts are settled simultaneously by the IESO. The account also records the amounts paid and received for OPA contracts (standard offer, generation and conservation/demand management), which the OPA settles on a monthly basis with the IESO.

The DR3, NUG, nuclear and hydro balances are offset in the global adjustment account, eliminating the need for a flow of funds between the IESO and the OPA. The OPA records the effect of the transactions to meet its legislated responsibility.

The OPA generation contracts are estimated each month and settled on the actual amount owing in the following month. This gives rise to timing differences. The settlement dates can cross calendar months,

Notes to

Financial Statements (continued)

creating a monthly balance in the account. Differences created from timing or settlement dates are reclassified into accounts receivable at month end. The net impact of global adjustment transactions creates a zero balance in the account at every month-end.

	2008	2007
DR3	\$ 1,264	\$ -
NUG	479,315	410,697
Nuclear	74,293	74,304
Hydro	(264,752)	(250,222)
OPA contracts	610,540	360,491
Global adjustment balancing amount	(900,660)	(595,270)
	\$ -	\$ -

6. Accounts payable and accrued liabilities

	2008	2007
Accrued contractor settlement	\$ (63,738)	\$ -
Accounts payable	(670)	(1,411)
GST payable	(2,290)	(5,570)
Other accrued liabilities	(29,097)	(81,272)
	\$ (95,795)	\$ (88,253)

7. Contract deposits

The OPA receives performance security in the form of deposit amounts received from renewable energy supply and demand response contractors. The deposits are larger during the construction phase and are reduced once a project commences commercial operations. Several projects moved from construction in 2007 to commercial operations in 2008.

The deposits are classified as current liabilities as they can be replaced by a letter of credit by the contractor on request.

8. Deferred rent inducement and operating lease commitments

The OPA has entered into various long-term lease commitments for office space, which include lease inducements. Deferred rent inducement represents the benefit of operating lease inducements amortized on a straight-line basis over the term of the lease. The OPA obtained an allowance for leasehold improvements of \$1,430. As at December 31, 2008, the deferred rent inducement, net of amortization, was \$980 (2007 - \$1,122).

The OPA reports an average rental cost for premises over the term of the lease agreement and amortizes the benefit of the lease inducements over the same period. As at December 31, 2008, the accrued liability was \$295.

All lease commitments are set to terminate coincidentally in October 2015. The minimum annual payments under the operating lease are approximately as follows:

Lease commitments	
2009	\$ 1,001
2010	1,012
2011	1,078
2012	1,079
2013	1,080
2014 and thereafter	1,939
	\$ 7,189

9. Internally restricted Conservation and Technology Development Funds

The OPA established the Conservation Fund to support electricity conservation projects. The Technology Development Fund was established to aid the development of new technology to improve electricity supply or conservation. To date, seven funds have been set up as depicted below.

	Restricted fund	Expensed 2008	Expensed prior years	Balance 2008
2005 Conservation Fund	\$ 1,100	\$ (10)	\$ 847	\$ 263
2006 Conservation Fund	1,500	168	1,413	(81)
2007 Conservation Fund	3,000	1,126	817	1,057
2008 Conservation Fund	3,000	357	–	2,643
2006 Technology Development Fund	1,000	256	217	527
2007 Technology Development Fund	1,000	432	24	544
2008 Technology Development Fund	1,500	414	–	1,086
	\$ 12,100	\$ 2,743	\$ 3,318	\$ 6,039

10. General operating costs

	2008	2007
General program costs	\$ 2,798	\$ 1,236
Premises	2,536	1,954
Office and administration	939	597
Information technology	257	188
	\$ 6,530	\$ 3,975

11. Pension plan

The OPA makes contributions to the Public Service Pension Plan, a multi-employer plan, on behalf of staff. The plan is a contributory defined pension plan, which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay.

Contribution rates by employers are made at a rate of approximately eight percent of earnings. As at December 31, 2008, the OPA paid or accrued contributions totalling \$1,233 during the year (2007 - \$946).

12. Change in non-cash operating items

	2008	2007
(Increase) decrease in accounts receivable	\$ (20,839)	\$ 50,051
(Increase) decrease in prepaid expenses	(241)	1,165
Increase in accounts payable and accrued liabilities	7,542	6,093
Decrease in contract deposits	(764)	(11)
	\$ (14,302)	\$ 57,298

13. Related-party transactions

The OPA considers the OEB, Hydro One, the IESO, OPG, the Ontario Financing Authority (OFA) and the Ministry of Energy and Infrastructure as related parties due to the relationship they maintain with the Government of Ontario. Transactions between these parties and the OPA were as follows:

Under the *Ontario Energy Board Act, 1998*, the OPA incurs registration and licence fees. Consistent with other registrants, in 2008 the OPA received a portion of the operating costs of the OEB. The total of the OPA's transactions with the OEB were \$1,062 in 2008 (2007 - \$9).

The OPA procures conservation and demand management from Hydro One. The procurement costs include payments for electricity conservation, program operating costs and management fees. In 2008, the OPA procured \$12,766 in conservation demand management (2007 - \$6,273) from Hydro One and its wholly owned subsidiaries.

Notes to

Financial Statements (continued)

The OPA receives its fee revenue from the IESO. The fee revenue is approved by the OEB and collected each month by the IESO from ratepayers through a usage rate applied to Ontario domestic electricity consumption. Fee revenue for 2008 was \$52,530 (2007 - \$55,470). In addition, the OPA and the IESO have agreements set up for the settlement of amounts paid and received for the global adjustment account, RPP and retailer contract settlement deferral accounts (see note 5). At year-end, the OPA had a net receivable of \$65,146 (2007 - \$28,579). The OPA also incurred \$257 (2007 - \$580) for IESO consulting services.

The OPA has an agreement with OPG for consulting services and planning support. In 2008, the OPA incurred \$17 (2007 - \$42) for such services.

The OPA has available a revolving operating facility in the amount of \$975,000, provided by the OFA to fund its general operating expenses and support the RPP variance account. The facility has been unused since 2007.

In the 2008 revenue requirement submission to the OEB, the OPA requested and received an OEB decision to carry the costs related to the government procurements of \$1,276 in a deferral account to settle coincidentally with the retail contract settlement deferral accounts. The amount of \$167 was incurred in 2008 (2007 - \$241).

14. Contingencies and guarantees

Contingencies

In the normal course of its operations, the OPA becomes involved in various legally binding agreements. Some of these agreements contain potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that a future event becomes likely to occur or fails to occur, and a reasonable estimate of the loss can be made, an estimated liability will be accrued and the expense recorded on the OPA's financial statements. As at December 31, 2008, in the opinion of management, no such liabilities exist.

Guarantees

The OPA is contingently liable under a loan guarantee provision in a contract with a maximum potential exposure of \$8,600. The outstanding loan balance under this contract, which the OPA has guaranteed, is \$258 as at December 31, 2008 and is not presently in default. The contract related to this guarantee expires in September 2012.

15. Fair values of financial assets and financial liabilities

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair values because of the short-term maturity of these instruments.

The fair values of the regulatory assets and regulatory liabilities are not provided because they would not provide additional useful information as they would be offset and/or would not be practical to determine.

16. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.

Corporate Information

Board of Directors



John M. Beck, Chair
Chairman and
Chief Executive Officer,
Aecon Group Inc.



Frank J. Ewasyshyn,
*Director**
Executive Vice-President -
Manufacturing, Chrysler LLC



Bruce Lourie, Director
President of Ivey Founda-
tion and a Director of the
Ontario Trillium Foundation



Charles Bayless, Director
Retired Provost,
West Virginia University
Institute of Technology



Richard P. Fitzgerald,
Director
Retired Chairman,
Diageo Canada Inc.



Lyn McLeod,
Director and Vice-Chair
Chancellor of the
University of Ontario Insti-
tute of Technology, Ontario
representative on the
Health Council of Canada
and serves on the Ontario
Health Quality Council



Michael Costello,
Director and Chair,
Audit Committee
Retired from BC Hydro
and BC Transmission
Corporation (President
and CEO); Director,
InTransit BC and Vancouver
Island Health Authority;
and Lecturer, University
of Victoria School of
Public Administration



Adele M. Hurley, Director
President,
Hurley & Associates Inc.



Patrick J. Monahan,
Director
Dean of Osgoode Hall Law
School and Chair of the
Board of Governors of the
Ontario Law Commission



Ronald L. Jamieson,
Director and Chair, Human
Resources Committee
Retired from BMO
Financial Group, where he
was Senior Vice-President,
Aboriginal Banking;
Director, Nuclear Waste
Management Organization



Colin Andersen, Director
Chief Executive Officer,
Ontario Power Authority

Corporate Officers



John M. Beck, Chair



Kimberly Marshall,
Vice-President, Finance
and Administration



Colin Andersen,
Chief Executive Officer



Amir Shalaby,
Vice-President,
Power System Planning



JoAnne Butler,
Vice-President,
Electricity Resources



Paul Shervill,
Vice-President,
Conservation and Sector
Development



Peter Love,
Chief Energy
Conservation Officer



John Zych,
Corporate Secretary



Michael Lyle,
General Counsel and
Vice-President, Legal
and External Affairs

For more information on
the Board of Directors,
including the Board Charter
and Code of Conduct,
Governance and Structure
By-Law, and Board
committees, please visit
the OPA website,
www.powerauthority.on.ca
and select About OPA;
Management, Mandate
and Organization; Board
of Directors.

**Term of office expired on February 16, 2009.*



OPA

Ontario Power Authority

Ontario Power Authority

120 Adelaide Street West

Suite 1600

Toronto, Ontario M5H 1T1

Phone (416) 967-7474

Fax (416) 967-1947

Web www.powerauthority.on.ca

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